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ABSTRACT

Issues in student financial need analysis are considered, based on the work of the Committee on Standards of Ability to Pay (CSAP) of the College Scholarship Service. The three major sections of the paper concern: CSAP's preliminary recommendations for changes in the 1986-1987 Uniform Methodology; a review of some of the methodological issues that the CSAP investigated during 1984; and the treatment of dependent and self-supporting student earnings. The CSAP recommends changes in two areas of the Uniform Methodology: treatment of business and farm losses, and treatment of tax-deferred income. The CSAP invites the reactions and advice of member representatives on specific issues, including: the medical/dental allowance; the Asset Protection Allowance, and the treatment of pension assets and IRA/Keogh accumulations; it also solicits guidance on a new approach to treating family assets. Included as an appendix is a draft copy of the report by the Task Force on Student Earnings, a subcommittee of Needs Assessment and Delivery of the National Student Aid Coalition. After briefly discussing the basic philosophy of need analysis, this draft report summarizes the Task Force's research on the ability of dependent students to earn and save, and the reasonableness of the current and proposed earnings expectations. (SW)

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# CSS

## ISSUES IN NEED ANALYSIS

A Discussion Paper from the CSS Committee on Standards of Ability to Pay

I. Recommendations for the 1986-87 Uniform Methodology

II. A Discussion of Other Issues in Need Analysis

III. A Review of Questions Related to Student Earnings (including "The Preliminary Report of the Task Force on Student Earnings [draft]," prepared and reproduced by permission of the Committee on Needs Assessment and Delivery, The National Student Aid Coalition)

*This paper has been prepared for discussion at the 1985 Regional Meetings of the College Board. The Committee on Standards of Ability to Pay, a standing committee of the College Scholarship Service Council, is charged with the responsibility of identifying issues, soliciting research, and providing recommendations to the Council on the CSS need analysis system and procedures.*

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# ISSUES IN NEED ANALYSIS

## A Discussion Paper from the CSS Committee on Standards of Ability to Pay

## INTRODUCTION

This paper has been prepared by the Committee on Standards of Ability to Pay (CSAP) for the purpose of stimulating discussion and soliciting advice at the 1985 Regional Assemblies of the College Board and College Scholarship Service (CSS). It is divided into three major sections:

I. **CSAP's preliminary recommendations for changes in the 1986-87 Uniform Methodology (UM),** on which the Committee seeks reaction and advice from member representatives prior to the formulation of its final recommendations to the CSS Council in March 1985;

II. **A review of some of the methodological issues that the Committee on Standards has been investigating during the past year,** with a request for study and comment by the member representatives to facilitate CSAP's further investigation and long-range planning; and

III. **A discussion of the treatment of dependent and self-supporting student earnings.** Included in this third section is a draft copy of the recent report by the Task Force on Student Earnings, a subcommittee of the Committee on Needs Assessment and Delivery (CONAD) of the National Student Aid Coalition, on which comments and recommendations are solicited from member representatives with an eye toward modification of the Uniform Methodology in the near future, possibly as early as 1987-88.

## I. RECOMMENDATIONS FOR THE 1986-87 UNIFORM METHODOLOGY

At the present time, the Committee on Standards of Ability to Pay is prepared to recommend changes in only two areas of the 1986-87 Uniform Methodology: treatment of business and farm losses, and treatment of tax-deferred income.

### 1. BUSINESS AND FARM INCOME LOSSES

The Committee on Standards recommends that in the 1986-87 Uniform Methodology, **business and farm losses be effectively zeroed out by adding losses back to the reported Adjusted Gross Income (AGI).**

The Committee made a similar recommendation for the 1985-86 UM, which was widely supported in the 1984 Regional Assemblies and endorsed by the CSS Council. However, the recommendation did not achieve the consensus necessary within the Committee on Need Analysis and Delivery of the National Student Aid Coalition to be incorporated into the 1985-86 UM.

#### Conceptual Problems in Defining and Treating Income in the UM

The current definition of income in the UM is based on the concept of AGI,

which is a construct of the federal tax system that sums most (but not all) income as defined by the Internal Revenue Service (IRS) code and subtracts certain adjustments allowable under the code. The UM uses AGI because it is verifiable by reference to financial aid applicants' tax returns and because it provides a basic reference point for applicants in completing need analysis forms.

Over the past several years, CSAP has been formulating a concept of "annual recurring spendable income (ARSI)," in the belief that horizontal equity in need analysis would best be served by that base rather than by using Adjusted Gross Income. While useful and justifiable for tax and public policy purposes, AGI is nonetheless an artificial construct that often fails to provide an adequate picture of family income for need analysis purposes, particularly for middle and upper-middle income families. In simple cases, AGI equals annual recurring spendable income, but in more complicated cases, particularly those involving business or farm holdings, AGI is quite different from annual recurring spendable income. Because AGI deflates or inflates a family's income for tax purposes, its use in need analysis may distort the portrait of a family's actual financial capacity to meet educational expenses.

## How the Use of AGI in the UM Affects Treatment of Business or Farm Losses

Nowhere in need analysis is the conflict between AGI and ARSI more evident than in the treatment of income related to a business or farm, particularly negative income or "losses." When the income is positive, the UM taxes the income as a resource; when it is negative, however, the AGI-based UM currently treats the loss as an offset against other forms of income. The fundamental question is: under what circumstances, if any, should the UM permit losses in income related to a business or farm to offset other income reported by a family?

Anyone whose self-employment provides either a primary or secondary income source must calculate "net income" from the business, farm, or profession for tax purposes. Individual proprietors generally report such income on Schedule C of the IRS Form 1040 and it is taxed as individual income. Partners' income is similarly taxed although it is reported on Schedule E. Incorporated businesses and professionals are taxed as corporations and pay individual taxes only on personal income received from the corporation.

But in all cases, business net income for tax purposes is defined as the difference between revenues received by the business and costs incurred in producing the product or service. For need analysis purposes, however, problems frequently arise in the definition of "costs," particularly the costs of capital (e.g., plant, equipment, and inventories). Capital items represent assets held in physical form rather than in cash, and they lose their value over time. Both tax and accounting principles have traditionally allowed business or farm holders to subtract from their income the cost of such a capital item as it loses its value over time; such subtractions from income are called "depreciation."

Because of the difficulty in establishing the precise manner in which an asset loses its value, certain guidelines have been established in federal tax law to prescribe the amount of depreciation. The federal tax code currently uses

a so-called "Accelerated Cost Recovery System", (ACRS) to quantify the amount of depreciation in the value of an asset over time. However, the ACRS -- another construct of the federal tax system -- is designed to stimulate business expenditures by permitting business or farm holders substantially to overstate the depreciation actually being incurred. The impact is to make business net income appear considerably lower than the actual cash flow would indicate.

From the perspective of need analysis, this artificial overstatement of depreciation and corresponding deflation of business net income poses several problems. First, although some losses may be quite real, in many cases (especially those involving depreciation) true or "spendable" income may be masked by artificial offsetting losses, creating an inequity between the treatment of individuals with fully taxed income and the treatment of those whose incomes are partially sheltered.

Secondly, such losses frequently exist only on paper, and the income (or loss) pictured for income tax purposes bears no resemblance to a family's actual financial strength. A conspicuous example of this situation can be found in real estate investments. Real estate generally loses no value at all over time and in fact generally appreciates in value, but accelerated depreciation deductions can frequently cancel all income and produce -- for tax purposes -- a significant net loss that offsets other real income. Such "shelters" may constitute such a strong economic good in public policy terms that the federal tax system effectively encourages them. For need analysis purposes, however, such "shelters" distorts the picture of the actual income stream available to a family to meet its various expenses, including the costs of education.

## The Extent of the Problem

Several factors apparently contributed to the lack of consensus within CONAD around the CSS recommendation for a change in the 1985-86 UM regarding business and farm losses: concern that the affected population had not been accurately described and that the impact of the proposed change had not been quantified; concern about treating farmers sensitively; uncertainty about collecting and constructing the appropriate dollar values; and a general desire to "give families the benefit of the doubt."

CSS is in a stronger position this year to advance the argument again since data have been developed to respond to several of these concerns. Because Side II of the CSS Financial Aid Form (FAF) collects a breakdown of those income components used in constructing AGI, it is possible to obtain some statistics about the extent of problem situations. Within the 1983-84 FAF dependent filer population, 16.2 percent of the cases involved business or farm income and 6.7 percent of the population reported a negative value for such income. For the categories of "other taxable income" (e.g., capital gains/losses, annuities), 23.4 percent of filers reported some value, with 4.1 percent reporting a negative value.

When negative components are detected in the composition of AGI, CSS already performs an alternate computation of parental contribution (PC) in which the negative items are set to a zero value. In 6.4 percent of the dependent cases, the alternate computation generated a PC different from the one

originally obtained. The average PC derived in this way was $831 higher than the standard UM computation, ranging from a $72 increase at the lowest level of income to a $1,524 increase at the highest income band. The accompanying charts contain a graphic representation of the extent of negative income reporting and its impact on PCs.

Financial aid administrator concern about this problem is evident in the responses to the 1984 "Survey of Undergraduate Need Analysis Policies, Practices, and Procedures" (SUNAPP) conducted by CSS and the National Association of Student Financial Aid Administrators (NASFAA). In 43 percent of the institutions from which responses were collected, current policy called for such losses to be "frequently" or "always" disallowed when they related to a secondary income source; there was no substantial difference in response attributable to sector.

With regard to concerns about treating farm losses sensitively and appropriately, the Committee on Standards of Ability to Pay concedes that there is a need for additional study to determine whether either the current or the proposed new UM treatment adequately handles farmers' problems. The Committee has created a subcommittee to investigate this particular aspect of the question in more depth and provide advice in the coming months.

Finally, with regard to whether families ought to receive "the benefit of the doubt," two points should be made. The first is that a desire for horizontal equity requires some change in the treatment of business and farm losses so as not to penalize families that do not have businesses and farms. The second is that setting a loss to zero is actually a rather conservative approach that already gives families a break. If depreciation rather than net losses were zeroed out, the effect would be to create a positive income flow on which a family would be taxed for need analysis purposes.

## Questions for Review by Member Representatives

1. In assessing a family's actual ability to contribute to the cost of education, to what extent, if at all, should such "losses" be permitted to offset other income sources?

2. In analyzing the impact of such losses, is there any significant difference in theory between cases involving businesses and cases involving farms?

3. Similarly, are there significant differences in theory between cases where the business or farm is a secondary income source and those where the business or farm is a primary income source?

4. If disaggregation according to primary and secondary sources is required, can data be adequately captured on the need analysis form?

5. If the current system clearly understates income in many instances, can one assume that a reversal of the default condition (e.g., from allowance to disallowance) would still permit those filers with "true" losses to receive a computation consistent with their actual ability to pay?

FIGURE 1:

## Reporting of Business/Farm Income

(1983–84 FAF Filers)

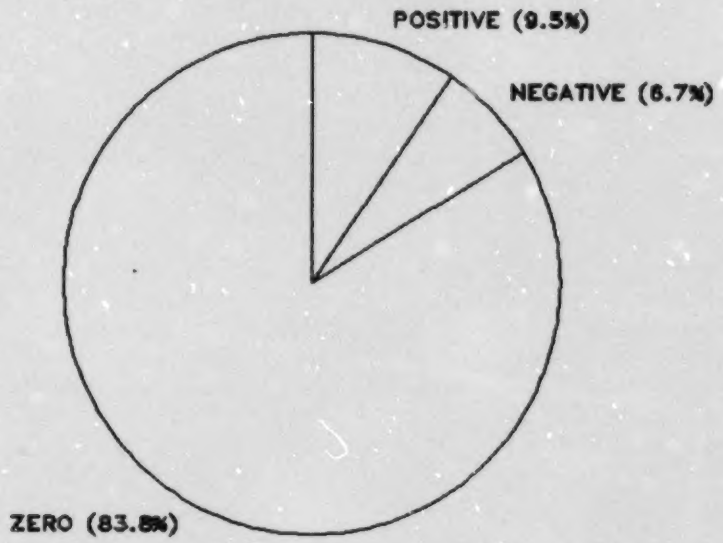



FIGURE 2:

## Reporting of Other Taxable Income

(1983–84 FAF Filers)

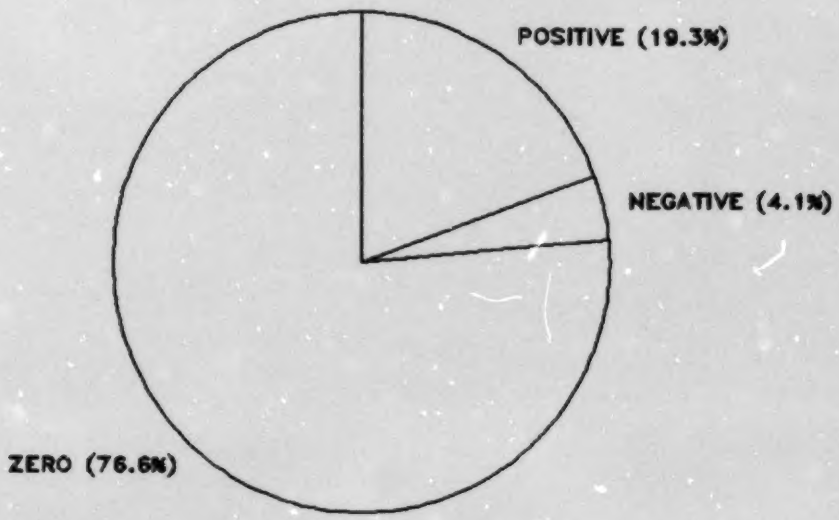
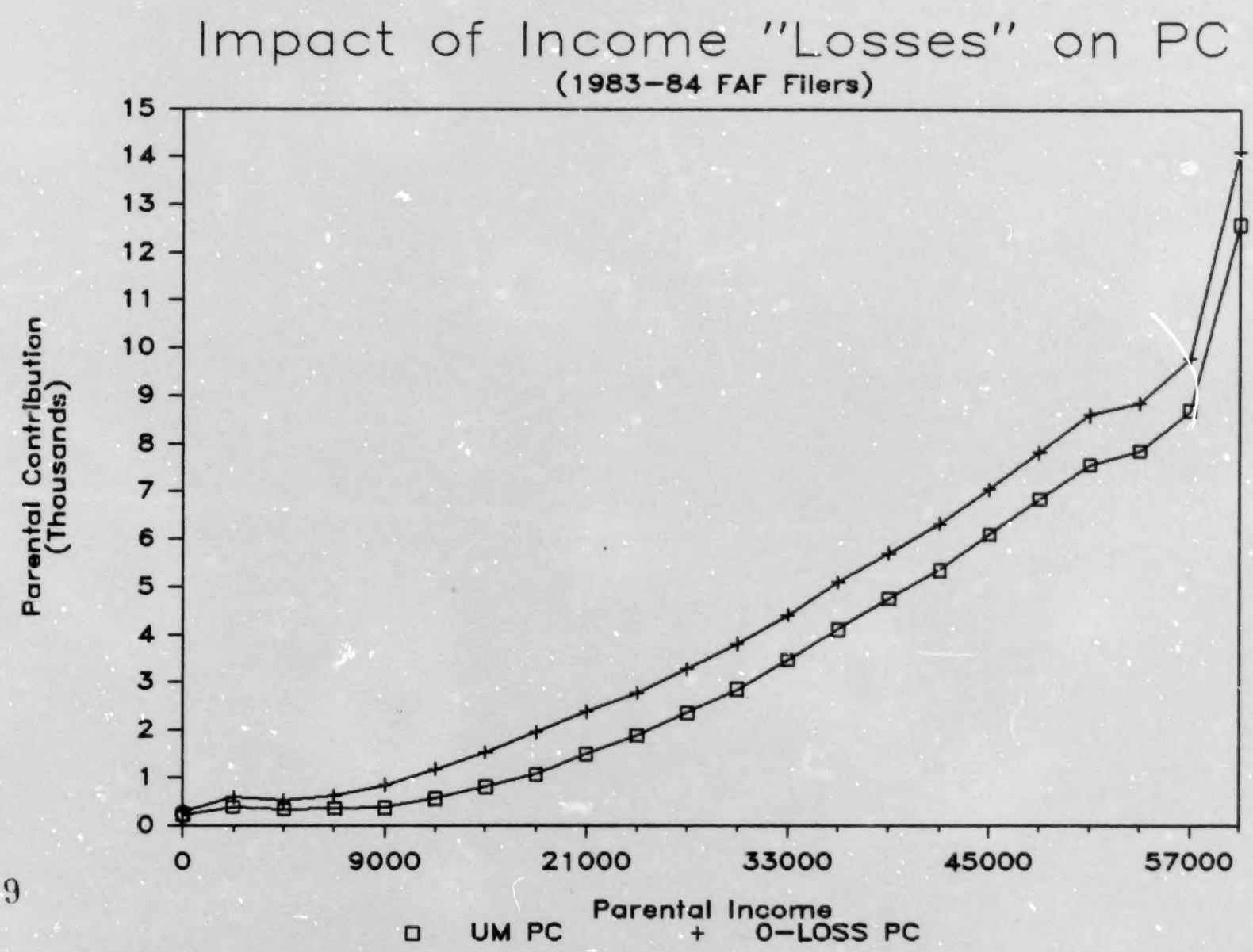


FIGURE 3:


Impact of Income "Losses" on PC
(1983–84 FAF Filers)
Parental Contribution
(Thousands)
15
14
13
12
11
10
9
8
7
6
5
4
3
2
1
0
0
9000
21000
33000
45000
57000
Parental Income
UM PC
0–LOSS PC

## 2. TREATMENT OF TAX-DEFERRED INCOME

The Committee on Standards recommends that in the 1986-87 Uniform Methodology, **tax-deferred income be added back to income for purposes of measuring a family's ability to contribute to educational expenses.**

The Committee made a similar recommendation for the 1985-86 UM, which was widely supported in the 1984 Regional Assemblies and endorsed by the CSS Council. CSS was subsequently unsuccessful in its efforts to persuade the Multiple Data Entry (MDE) Technical Committee to modify the core form so as to permit collection of the data for the 1985-86 academic year.

### Tax-Deferred Income and AGI

Tax-deferred income generally arises when an individual contracts with his or her employer to have some portion of income sheltered from taxation and put into a retirement account. Two of the most familiar types of such arrangements are the TIAA-CREF contracts held by many college and university employees and the similar 403(b) programs in which many public sector employees participate. Recent changes in the federal tax code have further expanded access to 401(k) salary reduction agreements. Participation in tax-deferred salary reduction agreements permits individuals to shelter some of their income from taxation; the amount sheltered is not reflected in their AGI.

### How the Use of AGI in the UM Masks Tax-Deferred Income

Keep in mind that the current definition of income in the UM is based on the concept of AGI and that participation in tax-deferred salary reduction agreements also enables families to shelter from need analysis such discretionary income as might otherwise be available for educational expenses. A question of horizontal equity appropriately can be raised about the difference in treatment between families participating in such agreements and families that are not.

An additional question of horizontal equity arises in view of the fact that the UM does not permit families to shelter IRA and Keogh payments from need analysis. Starting in 1984-85, the UM no longer allowed IRA and Keogh payments to be subtracted from income for need analysis purposes. Consistency would seem to require that if IRA and Keogh payments must be added back to income, other tax-deferred income should be added back as well. From the standpoint of income consumption, deferred compensation ought to be treated as support available to the family for the year in which it is earned.

### Collection of the Data

While agreeing in principle that tax-deferred income should be collected and added back to income for purposes of need analysis, the Committee on Standards is not prepared at the present time to recommend precisely how to collect the data, pending further study and advice from both member representatives and the staff. One option would be to modify item 26b (IRA and Keogh deductions) so that it

applies generically to all tax-deferred income. Another approach would be to modify the 29c worksheet in the FAF instructions and collect the data as part of "Untaxed Income and Benefits" in FAF question 29c. From the standpoint of form design, the least desirable approach would be the addition of a separate item to collect the data.

### Questions for Review by Member Representatives

1. Given that IRA and Keogh payments are no longer permitted as offsets to income for UM purposes, does equity indeed require that other deferred income be considered in need analysis as well?

2. Is it possible to collect such data consistently and accurately from all families?

3. What would be the most effective way to collect the data: as other untaxed income (29c), with IRA/Keogh payments (26b), or as a separate item?

## II. OTHER NEED ANALYSIS ISSUES

During the past few years, the Committee on Standards has studied several other areas of the methodology with an eye toward identifying changes that would introduce greater horizontal and vertical equity. While no immediate recommendations for change are anticipated in some of these areas, the Committee invites the reactions and advice of member representatives on five specific areas it is currently studying:

1. The medical/dental allowance
2. The Asset Protection Allowance (APA), and the treatment of pension assets and IRA/Keogh accumulations
3. A new approach to treating family assets
4. Preliminary experience with the new self-supporting student methodology
5. The Standard Maintenance Allowance (SMA) and taxation rates

### 1. THE MEDICAL/DENTAL ALLOWANCE

In computing available income for the dependent student need analysis model, the UM provides several allowances against income to recognize non-discretionary demands upon family income. One of these is the allowance for unusual medical and dental expenses, defined as those allowable expenditures reported by the family in excess of 3 percent of AGI. (Allowable expenses include the amount paid for medical and dental care, less any insurance reimbursement and the cost of insurance itself.) A medical and dental allowance has been a fixture of need analysis virtually from its inception.

Questions have been raised about the current UM medical and dental allowance because the Internal Revenue Service now utilizes a 5 percent threshold and permits the inclusion of all health insurance premiums paid by the family in the total expenses against which that 5 percent threshold is applied. Because it is so difficult to judge whether the recent changes in the tax code threshold and definition were driven by a desire to tighten perceived loopholes or by compelling economic evidence about the nature of family medical and dental expenses, it is also difficult to determine with any certainty whether the UM should be adjusted to coincide with the current provisions of federal tax law.

### Issues Related to the Threshold

The current 3 percent UM threshold dates back at least to the origins of the UM itself and is intended to represent those direct medical expenses (other than insurance) that are already included in the Standard Maintenance Allowance.

The current 5 percent IRS threshold is an outcome of a change in tax law. At the same time it enacted this change, Congress also eliminated a separate provision of the tax law that previously had permitted the straight deduction of half of the premiums paid for health insurance for filers who itemized. (The new provisions stipulate that while 100 percent of health insurance premiums may be added to other allowable medical and dental expenses, only that portion of the total exceeding 5 percent is deductible.) Thus the 5 percent IRS tax threshold applies to total health care costs (including insurance premiums), while the 3 percent UM need analysis threshold applies only to direct medical expenses (excluding premiums).

Ideally, the threshold in the UM would be established at that level of expense not already included in the SMA, without reference to the tax code at all. However, as will be indicated in subsection 5, there are reasons to be concerned about the validity of the SMA itself as a starting point, especially since the supporting data on family expenditure patterns is already 15 years old. In the light of the possibility of shifts in family consumption patterns over time, it is difficult to pinpoint whether 3 percent or 5 percent or, indeed, any other percentage currently represents the appropriate threshold.

However, even if it were possible to establish an appropriate threshold, the definition of allowable expenses still would pose a problem. When Congress changed the IRS tax threshold to 5 percent, it also altered the definition of qualifying expenses, so that the impact of the increase in the threshold was partially offset by an expanded set of allowable costs. Therefore, more than a simple adjustment in threshold would be required for the UM allowance to parallel the structure of the tax code.

## Issues Related to the Definition

The current definition for medical and dental expenses in the UM is the same as that prescribed by the Pell Grant Family Contribution Schedule (FCS), which relies in turn on a statutory description of "unusual" medical and dental expenses. Although this definition has worked adequately in the past, there is increasing evidence that it has become excessively cumbersome and even a deterrent to collecting accurate information.

The current tax threshold of 5 percent is applied against the sum of direct allowable medical and dental expenses plus 100 percent of health insurance premiums. When the tax code changed, the IRS modified Form 1040, Schedule A, so that a tax filer is no longer required to separate the amount of insurance premiums paid from other medical and dental expenses. The UM allowance, with its 3 percent threshold, is applied against the total of allowable medical and dental expenses exclusive of insurance premiums; the need analysis forms are designed accordingly.

The lack of continuity between the tax form and the need analysis form manifests itself in at least two ways:

1. A financial aid applicant's parents cannot rely exclusively on a line item reference that would permit direct transfer of information from the tax return to the FAF. Instead, certain "off-form" computations must be made. While line item references tend to improve the quality of data reporting by applicants, off-form computations are somewhat more error-prone.

2. An aid administrator who wishes to verify the amount reported by a family for medical and dental expenses cannot rely exclusively on a tax return, because the data are no longer disaggregated on Schedule A. Supplementary documentation must be requested from the filer, which increases the administrative burden for the institution and the reporting burden for the applicant's family.

## Questions for Review by Member Representatives

1. Should the medical/dental threshold be revised from 3 percent to 5 percent? Is parallelism between the UM and the federal tax code truly important?

2. Should the definition of medical and dental expenses be modified to include insurance premiums paid? If so, can that change be implemented within the statutory prescription of the Higher Education Amendments concerning the FCS? Further, does such a redefinition of expenses necessitate, in and of itself, a revision of the threshold?

3. How widespread is the problem of inaccurate reporting at the present time, given the necessity for off-form calculations? How much impact does inaccurate reporting have on resulting PCs?

## 2. FAMILY PENSION ASSETS AND THE UM ASSET PROTECTION ALLOWANCE

The UM currently computes a parental contribution by taxing adjusted available income (AAI). AAI itself is a combination of discretionary income and a portion of discretionary net worth. Discretionary net worth, in turn, is the difference between total assets, as defined by the UM, and an asset protection allowance. The APA is computed as the present value of assets, based on the age of the older parent, necessary to supplement Social Security benefits to afford a family an intermediate standard of living in retirement. The APA is intended to recognize the inherent need of families to accumulate a certain level of assets for their retirement.

The origins of the APA rest in a time when the need analysis system captured information about virtually all the assets held by families and comparitively few families were covered by any specific pension plan. Over the last decade, however, there has been a dramatic change in both of those circumstances. The 1974 Employee Retirement Income Security Act (ERISA) significantly encouraged the expansion of private retirement plans and the vesting of employee benefits. In addition, the Economic Recovery Act of 1981 provided almost universal access to IRAs, resulting in the significant reclassification of billions of dollars of personal assets not captured by the need analysis system. (Payments in a given year are added back as income, but accumulations are not currently assessed as assets).

The UM Asset Protection Allowance formula still functions as it originally did, without reference to any other such assets accumulated for retirement. As a result, a family with substantial pension rights or with a significant IRA or Keogh accumulation is treated exactly the same way as a family without such resources. Not only does this violate the principle of horizontal equity, but it also results in the overestimation of need for some students, possibly depriving other needier students of aid.

### The Extent of the Problem

Information from Side II of the FAF (which contains a question about pension coverage), combined with research commissioned by CSS from ICF, Inc., a Washington-based consulting firm, suggests that between 45 and 50 percent of FAF filers are probably covered by a pension plan. ICF data, derived from the 1979 Current Population Survey, Social Security records, and pension plan sponsors, also reveal that there is substantial variation in pension plan coverage by age, income, and length of service. As of 1982, such private retirement savings for the population as a whole (both in defined benefit and defined contribution plans) had an asset value of $695 billion. The database on private pension plan participation will be further enriched with the release later this year of the 1983 census survey of pension holdings.

Somewhat less is known about the value of IRA and Keogh accumulations among FAF filers, because the form does not collect the value of funds accumulated. Other sources, however, confirm that the accumulation of IRA and Keogh savings are growing at a significant rate, spurred by tax incentives for contributions. Through November 1983, the national value of such accumulations was estimated at $98 billion. Of significant interest from a

need analysis perspective is some evidence that these funds generally have not represented new savings but rather have been created by transfers from other asset holdings. If this is so, such accumulations among the parents of financial aid applicants would have resulted in a decrease in the actual value of reported assets.

Granting the extent of the problem, is it possible to address pension assets in the total formula for deriving ability to pay, and what factors might foster an environment sensitive to the individual applicant but equitable for all?

## Theoretical Approaches to Treating Pension Assets

The purpose of seeking a theoretical model for handling private pension assets is not to tap assets accumulated for retirement per se, but merely to introduce more horizontal equity into the treatment of all assets accumulated by parents of all filers. In the same sense that a family with home equity is in a stronger financial position than a family with similar income but no home equity, a family with additional private pension or other accumulated retirement assets (e.g., IRA or Keogh funds) is in a stronger financial position than a family whose income and other assets are similar, but who lack such coverage. The goal is to permit families in like financial circumstances to protect like amounts of assets for retirement, regardless of the form in which those assets are held.

Therefore, recognizing that the UM asset protection allowance is derived from a formula that consists of several variables (e.g., the older parent's age, predicted inflation, mortality tables), there is some logic to proposing that private retirement benefits be treated as an offset within the existing APA formula. There are several ways in which such a change in the methodology could be accomplished, varying in their levels of precision and complexity.

Because of the different character of private pension assets and IRA/Keogh accumulations, one might incorporate them differently in the methodology. While reducing the APA by the actual amount of a family's private pension assets might seem the most logical theoretical approach, it is also the least practical, given the virtual impossibility of collecting comparable individual data from families about their holdings in any timely fashion. A more feasible approach would be to impute (or assume) into the APA itself a level of pension assets for those filers who report that they participate in a pension plan, provided that the available aggregate data on pension plan participation is sufficiently solid to support imputation on theoretical grounds as well. While imputation, in some cases, could result in an overestimation of a family's assets, it is important to keep in mind that imputations (e.g., about inflation and mortality rates) are already inherent in the APA and implicit in any generalized allowance structure.

The first approach to imputation would result in fairly specific assumptions about the value of pension assets. One would impute a specific level of retirement fund asset values to the parents of an FAF filer, based on the older wage earner's age, total income and years of service. Figure 4 is a

sample table of imputed retirement fund asset values, derived from data prepared for CSS by ICF. It should be noted that the values in this table derive from the 25th percentile of the distribution of private pension assets in the ICF data base, which means that in 75 percent of the cases for which private pension assets are imputed, the imputed values will actually fall short of the actual values. This also implies, of course, that in some cases, private pension assets would be overestimated by some degree, not necessarily substantially.

A second, somewhat simpler approach would be to develop two different APA tables, one for use with filers who report that they participate in a pension plan and the other for use with filers who do not. This approach would not permit a filer's APA to be adjusted with the same precision as the method described previously, but would at least permit some differentiation in treatment between families with pension coverage and those without.

Unlike the treatment for private pension assets, a treatment for IRA and Keogh assets could use specific accumulation values. One might speculate that the statutory reporting requirements for IRAs and Keoghs would make it much easier for families to report exact accumulations (in a way that they might not be able to report the value of pension plan holdings). Consequently, one can envision capturing the precise value of IRA and Keogh accumulations on the need analysis form and then using it to offset the value of the APA.

## The Impact of Revising the APA

Although it has not been possible to study the impact of such changes on the total population, an analysis has been performed using the benchmark cases as the base. Figure 5 contains 7 impact tables that describe the effect on PCs using the revised APA table (broken down by years of service), but showing the difference between accrued versus vested benefits. Given the 12 percent asset conversion rate and the maximum taxation rate on adjusted available income, the changes in PC are more modest than one might anticipate. However, for the families involved, the adjustments would be quite real, and this situation might provide another stimulus for reviewing the entire need analysis taxation structure itself.

## Questions for Review by Member Representatives

The Committee on Standards is not prepared to make a specific recommendation on modifying the methodology at this time, but anticipates further study during 1985 with an eye toward presenting a specific proposal at the 1986 regional meetings. A discussion of the following questions would be helpful to the Committee in guiding its own discussions during the coming year.

1. Should the APA be adjusted to account for family pension assets and/or for personal IRA/Keogh accumulations?

2. Can the amount of adjustment to the APA be determined satisfactorily from a few variables (e.g., age, income, years of service)?

3. Will families report even the most basic information accurately, and would any such data collection process inadvertently penalize those who tell the truth in favor of families who respond to the questions?

4. In determining the level of offsets, should the resulting table be based on accrued benefits or vested benefits?

5. Are there special circumstances which apply to couples where both work that would affect the table values? Similarly, are there survivor benefit relationships that should also be explored from the perspective of equity?

6. If pension assets and IRA/Keogh savings are used in need analysis as an offset to the APA, should need analysis continue to add back to income those tax exclusions (either IRA and Keogh contributions, as is current UM practice, or tax-deferred income, as has been proposed elsewhere in this paper)? In other words, if a modified APA were adopting without changing the procedures related to income, would need analysis not be taxing the same resource as both income and asset?

7. Is it appropriate to utilize an <u>imputed</u> value for private pension plan assets but an <u>actual</u> value for IRA and Keogh accumulations?

Figure 4: PENSION ASSETS AND ADJUSTED ASSET PROTECTION ALLOWANCE
(1983 Dollars)

| Years of Service & Age | Current APA | | Earnings, Type of Assets, Adjusted APA | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | $0 - 15,479 | | | $15,480 - 30,959 | | | $30,960 and above | | |
| | | | Accrued | | | Accrued | | | Accrued | | |
| | Age | Amount | Amount | Adj. APA | Vested | Amount | Adj. APA | Vested | Amount | Adj. APA | Vested |
| 0-4 | | | | | | | | | | | |
| 16-34 | 25 | 0 | 103 | 0 | 0 | 332 | 0 | 0 | 286 | 0 | 0 |
| 35-44 | 40 | 9,100 | 173 | 8,900 | 0 | 596 | 8,500 | 0 | 786 | 8,300 | 0 |
| 45-54 | 50 | 24,200 | 273 | 23,900 | 0 | 1,143 | 23,100 | 0 | 2,048* | 22,200 | 0 |
| 55-65 | 60 | 27,700 | 726 | 27,000 | 0 | 1,544* | 26,200 | 0 | 2,501* | 25,200 | 0 |
| 5-9 | | | | | | | | | | | |
| 16-34 | 25 | 0 | 721 | 0 | 0 | 1,168 | 0 | 0 | 1,425 | 0 | 0 |
| 35-44 | 40 | 9,100 | 1,269 | 7,800 | 0 | 2,628 | 6,500 | 0 | 4,151 | 4,900 | 0 |
| 45-54 | 50 | 24,200 | 1,790 | 22,400 | 0 | 4,255 | 19,900 | 0 | 7,317* | 16,900 | 1,146* |
| 55-65 | 60 | 27,700 | 2,693 | 25,000 | 0 | 5,257 | 22,400 | 616* | 8,499** | 19,200 | 5,004** |
| 10-19 | | | | | | | | | | | |
| 16-34 | 25 | 0 | 1,721 | 0 | 1,104 | 2,543 | 0 | 1,891 | 2,722 | 0 | 1,821* |
| 35-44 | 40 | 9,100 | 1,691 | 7,400 | 1,186 | 4,145 | 5,000 | 3,271 | 8,311* | 800 | 6,627 |
| 45-54 | 50 | 24,200 | 3,035 | 21,200 | 0 | 7,505 | 16,700 | 5,836 | 12,574* | 11,600 | 12,136* |
| 55-65 | 60 | 27,700 | 4,416 | 23,300 | 2,053 | 12,095 | 15,600 | 9,394* | 15,705* | 12,000 | 11,526* |
| 20+ | | | | | | | | | | | |
| 35-44 | 40 | 9,100 | 2,460* | 6,600 | 1,787* | 5,641 | 3,500 | 4,966 | 10,589* | 0 | 10,589* |
| 45-54 | 50 | 24,200 | 5,085* | 19,100 | 4,841* | 10,429 | 13,800 | 9,869 | 21,959* | 2,200 | 16,982* |
| 55-65 | 60 | 27,700 | 3,074* | 24,600 | 684 | 14,750 | 12,900 | 14,118* | 19,406* | 8,300 | 17,852* |

Note: The data required to impute assets are (1) whether the individual is employed and covered by (i.e., participating in) his or her employer's pension plan, (2) years of service with the current employer, (3) age, and (4) income.

*The estimate is based on an asset interval that was derived from less than 30 observations in the Current Population Survey. The small number of observations in the interval does not seriously affect the estimate of the 25th percentile amount, since the entire distribution for the age, income, and duration of service class is usually based on many more than 30 observations. This is especially true of the estimates on the lower right hand portion of the table.

**The estimate is based on a distribution of assets in the income, age, and service class that was derived from less than about 30 observations in the Current Population Survey. The estimate is unreliable.

Source: ICF, Inc. derived the data from (1) the May 1979 Current Population Survey (CPS) which included data on the pension coverage of the respondents, (2) the Social Security earnings histories of CPS respondents, and (3) a statistical match of the CPS records with the ICF Retirement Plan Provisions Data Base. ICF used standard mortality and interest rate assumptions to calculate the present value of each employee's accrued and vested pension benefits in 1979.

Figure 5: COMPARISON OF CURRENT BENCHMARK CASES WITH CASES USING AN ADJUSTED APA FOR PENSION ASSETS*

| Net Assets: | $20,000 | | | | $40,000 | | | | $60,000 | | | | $80,000 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Family Size: | 3 | 4 | 5 | 6 | 3 | 4 | 5 | 6 | 3 | 4 | 5 | 6 | 3 | 4 | 5 | 6 |
| **INCOME BEFORE TAXES: $12,000** | | | | | | | | | | | | | | | | |
| PCs using Current Policy (benchmark cases 1985-86) | 0 | 0 | 0 | 0 | 150 | 0 | 0 | 0 | 680 | 210 | 0 | 0 | 1210 | 740 | 280 | 0 |
| PCs using adjusted APA for estimated ACCRUED pension assets | | | | | | | | | | | | | | | | |
| Yrs./service | | | | | | | | | | | | | | | | |
| (0-4) | 0 | 0 | 0 | 0 | 160 | 0 | 0 | 0 | 690 | 210 | 0 | 0 | 1220 | 740 | 290 | 0 |
| (5-9) | 0 | 0 | 0 | 0 | 200 | 0 | 0 | 0 | 720 | 250 | 0 | 0 | 1250 | 780 | 320 | 0 |
| (10-19) | 0 | 0 | 0 | 0 | 220 | 0 | 0 | 0 | 750 | 270 | 0 | 0 | 1270 | 800 | 350 | 0 |
| (20 +) | 0 | 0 | 0 | 0 | 250 | 0 | 0 | 0 | 780 | 310 | 0 | 0 | 1310 | 840 | 380 | 0 |
| PCs using adjusted APA for estimated VESTED pension assets | | | | | | | | | | | | | | | | |
| Yrs./service | | | | | | | | | | | | | | | | |
| (0-4) | 0 | 0 | 0 | 0 | 150 | 0 | 0 | 0 | 680 | 210 | 0 | 0 | 1210 | 740 | 280 | 0 |
| (5-9) | 0 | 0 | 0 | 0 | 150 | 0 | 0 | 0 | 680 | 210 | 0 | 0 | 1210 | 740 | 280 | 0 |
| (10-19) | 0 | 0 | 0 | 0 | 150 | 0 | 0 | 0 | 680 | 210 | 0 | 0 | 1210 | 740 | 280 | 0 |
| (20 +) | 0 | 0 | 0 | 0 | 240 | 0 | 0 | 0 | 770 | 300 | 0 | 0 | 1300 | 820 | 370 | 0 |
| **INCOME BEFORE TAXES: $20,000** | | | | | | | | | | | | | | | | |
| PCs using Current Policy (benchmark cases 1985-86) | 1080 | 590 | 130 | 0 | 1410 | 940 | 500 | 0 | 1990 | 1470 | 1020 | 530 | 2720 | 2070 | 1560 | 1050 |
| PCs using adjusted APA for estimated ACCRUED pension assets | | | | | | | | | | | | | | | | |
| Yrs./service | | | | | | | | | | | | | | | | |
| (0-4) | 1080 | 600 | 140 | 0 | 1430 | 960 | 520 | 20 | 2020 | 1490 | 1050 | 550 | 2750 | 2100 | 1580 | 1080 |
| (5-9) | 1110 | 630 | 170 | 0 | 1500 | 1030 | 590 | 90 | 2110 | 1560 | 1120 | 620 | 2860 | 2190 | 1660 | 1150 |
| (10-19) | 1130 | 650 | 200 | 0 | 1560 | 1100 | 650 | 150 | 2190 | 1630 | 1180 | 680 | 2950 | 2270 | 1730 | 1210 |
| (20 +) | 1150 | 670 | 220 | 0 | 1630 | 1150 | 710 | 210 | 2270 | 1700 | 1240 | 740 | 3040 | 2350 | 1800 | 1270 |
| PCs using adjusted APA for estimated VESTED pension assets | | | | | | | | | | | | | | | | |
| Yrs./service | | | | | | | | | | | | | | | | |
| (0-4) | 1080 | 590 | 130 | 0 | 1410 | 940 | 500 | 0 | 1990 | 1470 | 1020 | 530 | 2720 | 2070 | 1560 | 1050 |
| (5-9) | 1080 | 590 | 130 | 0 | 1410 | 940 | 500 | 0 | 1990 | 1470 | 1020 | 530 | 2720 | 2070 | 1560 | 1050 |
| (10-19) | 1120 | 640 | 180 | 0 | 1530 | 1060 | 620 | 120 | 2150 | 1600 | 1150 | 650 | 2900 | 2230 | 1690 | 1170 |
| (20 +) | 1140 | 670 | 220 | 0 | 1610 | 1140 | 690 | 190 | 2250 | 1680 | 1220 | 720 | 3020 | 2330 | 1780 | 1250 |
| **INCOME BEFORE TAXES: $28,000** | | | | | | | | | | | | | | | | |
| PCs using Current Policy (benchmark cases 1985-86) | 2430 | 1830 | 1340 | 830 | 2850 | 2200 | 1680 | 1180 | 3760 | 2960 | 2320 | 1730 | 4730 | 3900 | 3110 | 2380 |
| PCs using adjusted APA for estimated ACCRUED pension assets | | | | | | | | | | | | | | | | |
| Yrs./service | | | | | | | | | | | | | | | | |
| (0-4) | 2430 | 1830 | 1350 | 840 | 2910 | 2230 | 1700 | 1200 | 3800 | 3000 | 2350 | 1750 | 4920 | 3950 | 3150 | 2410 |
| (5-9) | 2440 | 1850 | 1370 | 870 | 2990 | 2320 | 1780 | 1270 | 3940 | 3100 | 2440 | 1830 | 5060 | 4090 | 3270 | 2500 |
| (10-19) | 2460 | 1860 | 1390 | 890 | 3080 | 2400 | 1850 | 1330 | 4070 | 3210 | 2530 | 1900 | 5200 | 4230 | 3390 | 2590 |
| (20 +) | 2470 | 1880 | 1400 | 910 | 3180 | 2480 | 1920 | 1390 | 4200 | 3320 | 2620 | 1970 | 5320 | 4350 | 3490 | 2680 |
| PCs using adjusted APA for estimated VESTED pension assets | | | | | | | | | | | | | | | | |
| Yrs./service | | | | | | | | | | | | | | | | |
| (0-4) | 2430 | 1830 | 1340 | 830 | 2850 | 2200 | 1680 | 1180 | 3760 | 2960 | 2320 | 1730 | 4730 | 3900 | 3110 | 2380 |
| (5-9) | 2430 | 1830 | 1340 | 830 | 2850 | 2200 | 1680 | 1180 | 3760 | 2960 | 2320 | 1730 | 4730 | 3900 | 3110 | 2380 |
| (10-19) | 2450 | 1860 | 1380 | 880 | 3030 | 2360 | 1820 | 1300 | 4000 | 3150 | 2480 | 1860 | 5130 | 4150 | 3320 | 2540 |
| (20 +) | 2470 | 1880 | 1400 | 900 | 3150 | 2460 | 1900 | 1370 | 4160 | 3290 | 2590 | 1950 | 5290 | 4320 | 3460 | 2660 |

* NOTE: The figures shown are parents' contributions, assuming the older parent, age 45, employed; the other parent not employed; income from employment only; no unusual circumstances; standard deduction on U.S. income tax; and one undergraduate child in college.

Figure 5 continued

| Net Assets: | $20,000 | | | | $40,000 | | | | $60,000 | | | | $80,000 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Family Size: | 3 | 4 | 5 | 6 | 3 | 4 | 5 | 6 | 3 | 4 | 5 | 6 | 3 | 4 | 5 | 6 |
| **INCOME BEFORE TAXES: $36,000** | | | | | | | | | | | | | | | | |
| PCs using Current Policy (benchmark cases 1985-86) | 4370 | 3420 | 2700 | 2020 | 4840 | 3890 | 3120 | 2410 | 5960 | 5020 | 4120 | 3220 | 7100 | 6150 | 5250 | 4240 |
| PCs using adjusted APA for estimated ACCRUED pension assets | | | | | | | | | | | | | | | | |
| Yrs./service | | | | | | | | | | | | | | | | |
| (0-4) | 4370 | 3420 | 2710 | 2030 | 4920 | 3970 | 3190 | 2460 | 6050 | 5100 | 4200 | 3290 | 7180 | 6230 | 5330 | 4320 |
| (5-9) | 4370 | 3440 | 2730 | 2060 | 5160 | 4210 | 3400 | 2630 | 6290 | 5340 | 4450 | 3500 | 7420 | 6470 | 5580 | 4570 |
| (10-19) | 4370 | 3450 | 2750 | 2090 | 5430 | 4480 | 3620 | 2820 | 6560 | 5610 | 4710 | 3720 | 7680 | 6730 | 5840 | 4830 |
| (20 +) | 4630 | 3700 | 2970 | 2280 | 5760 | 4810 | 3910 | 3060 | 6890 | 5940 | 5040 | 4030 | 8010 | 7060 | 6170 | 5160 |
| PCs using adjusted APA for estimated VESTED pension assets | | | | | | | | | | | | | | | | |
| Yrs./service | | | | | | | | | | | | | | | | |
| (0-4) | 4370 | 3420 | 2700 | 2020 | 4840 | 3890 | 3120 | 2410 | 5960 | 5020 | 4120 | 3220 | 7100 | 6150 | 5250 | 4240 |
| (5-9) | 4370 | 3420 | 2700 | 2030 | 4870 | 3920 | 3150 | 2430 | 6000 | 5050 | 4160 | 3250 | 7130 | 6180 | 5290 | 4270 |
| (10-19) | 4370 | 3450 | 2750 | 2090 | 5370 | 4420 | 3570 | 2770 | 6500 | 5550 | 4650 | 3670 | 7620 | 6670 | 5780 | 4770 |
| (20 +) | 4490 | 3580 | 2870 | 2190 | 5620 | 4670 | 3780 | 2950 | 6740 | 5800 | 4900 | 3890 | 7870 | 6920 | 6030 | 5020 |
| **INCOME BEFORE TAXES: $44,000** | | | | | | | | | | | | | | | | |
| PCs using Current Policy (benchmark cases 1985-86) | 6550 | 5620 | 4750 | 3760 | 7050 | 6130 | 5260 | 4270 | 8180 | 7260 | 6390 | 5400 | 9310 | 8380 | 7510 | 6530 |
| PCs using adjusted APA for estimated ACCRUED pension assets | | | | | | | | | | | | | | | | |
| Yrs./service | | | | | | | | | | | | | | | | |
| (0-4) | 6550 | 5620 | 4750 | 3760 | 7130 | 6210 | 5340 | 4350 | 8260 | 7340 | 6470 | 5480 | 9390 | 8460 | 7590 | 6610 |
| (5-9) | 6550 | 5620 | 4750 | 3770 | 7380 | 6450 | 5580 | 4590 | 8500 | 7580 | 6710 | 5720 | 9630 | 8710 | 7840 | 6850 |
| (10-19) | 6550 | 5620 | 4750 | 3780 | 7640 | 6720 | 5850 | 4860 | 8770 | 7840 | 6970 | 5990 | 9898 | 8970 | 8100 | 7120 |
| (20 +) | 6840 | 5920 | 5050 | 4060 | 7970 | 7050 | 6180 | 5190 | 9100 | 8170 | 7300 | 6320 | 10230 | 9300 | 8430 | 7440 |
| PCs using adjusted APA for estimated VESTED pension assets | | | | | | | | | | | | | | | | |
| Yrs./service | | | | | | | | | | | | | | | | |
| (0-4) | 6550 | 5620 | 4750 | 3760 | 7050 | 6130 | 5260 | 4270 | 8180 | 7260 | 6390 | 5400 | 9310 | 8380 | 7510 | 6530 |
| (5-9) | 6550 | 5620 | 4750 | 3760 | 7090 | 6160 | 5290 | 4300 | 8210 | 7290 | 6420 | 5430 | 9340 | 8420 | 7550 | 6560 |
| (10-19) | 6550 | 5620 | 4750 | 3770 | 7580 | 6660 | 5790 | 4800 | 8710 | 7780 | 6910 | 5930 | 9840 | 8910 | 8040 | 7060 |
| (20 +) | 6700 | 5780 | 4910 | 3920 | 7830 | 6900 | 6040 | 5050 | 8960 | 8030 | 7160 | 6180 | 10090 | 9160 | 8290 | 7300 |
| **INCOME BEFORE TAXES: $52,000** | | | | | | | | | | | | | | | | |
| PCs using Current Policy (benchmark cases 1985-86) | 8690 | 7790 | 6940 | 5980 | 9200 | 8290 | 7450 | 6480 | 10320 | 9420 | 8580 | 7610 | 11450 | 10550 | 9700 | 8740 |
| PCs using adjusted APA for estimated ACCRUED pension assets | | | | | | | | | | | | | | | | |
| Yrs./service | | | | | | | | | | | | | | | | |
| (0-4) | 8690 | 7790 | 6940 | 5980 | 9280 | 8370 | 7530 | 6560 | 10400 | 9500 | 8660 | 7690 | 11530 | 10630 | 9780 | 8820 |
| (5-9) | 8690 | 7790 | 6940 | 5980 | 9520 | 8620 | 7770 | 6810 | 10650 | 9750 | 8900 | 7940 | 11780 | 10870 | 10030 | 9060 |
| (10-19) | 8690 | 7790 | 6940 | 5980 | 9790 | 8880 | 8040 | 7070 | 10910 | 10010 | 9160 | 8200 | 12040 | 11140 | 10290 | 9330 |
| (20 +) | 8990 | 8080 | 7240 | 6270 | 10110 | 9210 | 8370 | 7400 | 11240 | 10340 | 9490 | 8530 | 12370 | 11470 | 10620 | 9660 |
| PCs using adjusted APA for estimated VESTED pension assets | | | | | | | | | | | | | | | | |
| Yrs./service | | | | | | | | | | | | | | | | |
| (0-4) | 8690 | 7790 | 6940 | 5980 | 9200 | 8290 | 7450 | 6480 | 10320 | 9420 | 8580 | 7610 | 11450 | 10550 | 9700 | 8740 |
| (5-9) | 8690 | 7790 | 6940 | 5980 | 9230 | 8330 | 7480 | 6520 | 10360 | 9450 | 8610 | 7640 | 11480 | 10580 | 9740 | 8770 |
| (10-19) | 8690 | 7790 | 6940 | 5980 | 9730 | 8820 | 7980 | 7010 | 10850 | 9950 | 9110 | 8140 | 11980 | 11080 | 10230 | 9270 |
| (20 +) | 8850 | 7940 | 7110 | 6130 | 9970 | 9070 | 8230 | 7260 | 11100 | 10200 | 9350 | 8390 | 12230 | 11330 | 10480 | 9520 |
| **INCOME BEFORE TAXES: $60,000** | | | | | | | | | | | | | | | | |
| PCs using Current Policy (benchmark cases 1985-86) | 10720 | 9820 | 8970 | 8010 | 11230 | 10320 | 9480 | 8510 | 12350 | 11450 | 10610 | 9640 | 13480 | 12580 | 11730 | 10770 |
| PCs using adjusted APA for estimated ACCRUED pension assets | | | | | | | | | | | | | | | | |
| Yrs./service | | | | | | | | | | | | | | | | |
| (0-4) | 10720 | 9820 | 8970 | 8220 | 11310 | 10400 | 9560 | 8600 | 12430 | 11530 | 10690 | 9720 | 13560 | 12660 | 11810 | 10850 |
| (5-9) | 10720 | 9820 | 8970 | 8220 | 11550 | 10650 | 9800 | 8840 | 12680 | 11780 | 10930 | 9970 | 13810 | 12900 | 12060 | 11090 |
| (10-19) | 10720 | 9820 | 8970 | 8220 | 11820 | 10910 | 10070 | 9100 | 12940 | 12040 | 11200 | 10230 | 14070 | 13170 | 12320 | 11360 |
| (20 +) | 11020 | 10110 | 9270 | 8300 | 12140 | 11240 | 10400 | 9430 | 13270 | 12370 | 11520 | 10560 | 14400 | 13500 | 12650 | 11690 |
| PCs using adjusted APA for estimated VESTED pension assets | | | | | | | | | | | | | | | | |
| Yrs./service | | | | | | | | | | | | | | | | |
| (0-4) | 10720 | 9820 | 8970 | 8010 | 11230 | 10320 | 9480 | 8510 | 12350 | 11450 | 10610 | 9640 | 13480 | 12580 | 11730 | 10770 |
| (5-9) | 10720 | 9820 | 8970 | 8220 | 11260 | 10360 | 9510 | 8550 | 12390 | 11480 | 10640 | 9680 | 13520 | 12610 | 11770 | 10800 |
| (10-19) | 10720 | 9820 | 8970 | 8010 | 11760 | 10850 | 10010 | 9040 | 12880 | 11980 | 11140 | 10170 | 14010 | 13110 | 12260 | 11300 |
| (20 +) | 10880 | 9970 | 9130 | 8160 | 12000 | 11100 | 10260 | 9290 | 13130 | 12230 | 11380 | 10420 | 14260 | 13360 | 12510 | 11550 |

## 3. FAMILY ASSETS: AN ALTERNATIVE THEORETICAL APPROACH

The Uniform Methodology for dependent students currently distinguishes between the parents' assets and a student's assets and treats them differently. The Committee on Standards believes that the separate treatment of parents' assets and dependent students' assets should be studied to determine if the distinction is still useful. Changes in both the composition of the applicant population and personal financial planning strategies suggest that the traditional UM distinction may actually serve to foster horizontal inequities.

### Paradoxes in the Current Treatment

Taken together, the unencumbered portion of the parents' assets constitute their net worth; their net worth is, in turn, offset by an APA indexed to the age of the older parent and the resulting value becomes the basis on which an income supplement of 12 percent is computed. The income supplement is treated as a portion of available income and taxed at a rate ranging from 22 to 47 percent. The end result is that the maximum taxation rate for parental assets is 5.6 percent (.47 x .12). By contrast, the dependent student's assets are taxed much more heavily, at a flat 35 percent contribution rate.

As educational costs rise, families with higher and higher incomes appear in the applicant pool and receive aid packages. The UM must now be used to calculate ability to pay among families who never were -- and were never intended to be -- aid recipients in the 1950s when the principles and practices of need analysis were first developed. In the CSS dependent student filer population today, 38 percent come from families with annual incomes in excess of $30,000; the summary statistics also show a predictable relationship between assets and income, with asset accumulations increasing as income levels rise.

While acknowledging that many middle income families need some financial assistance to pay for postsecondary educational expenses, they also have a significant ability to contribute towards those costs. However, the current methodology's treatment of assets may serve as a powerful <u>dis</u>incentive for engaging in those forms of financial behavior that would actually expand those families' ability to contribute to the cost of education.

One device that can significantly enhance parents' ability to contribute is transferring assets from parent to child in order to augment after-tax earnings. Taxed at the child's lower income bracket, the family is left with more disposable dollars that can be applied to educational costs. However, a need analysis system that taxes student assets at 35 percent and parents' at a maximum of 5.6 percent may dissuade families from going this route. While beneficial from an immediate income tax perspective, transferring assets from parent to student also requires families to sacrifice a significantly larger portion of assets (and associated future income), simply because the asset base has been reorganized without altering its real value. Some parents may conclude that the sacrifice is too great and elect to forego the additional income, which is then also lost to the need analysis system.

### An Alternative Approach

For dependent students, the financing of a college education is a joint project undertaken by parents and child. Instead of serving as a disincentive to personal financing strategies that enhance ability to pay, the need analysis system could reinforce the deployment of assets within the family unit so as to increase to their capacity. Such a reinforcement would require a recognition that a redistribution of assets within the family does not really alter the asset value, only the amount of after-tax income available to a family for discretionary use.

One approach would be to combine student assets and parental assets in a single category called "family assets," to be taxed at a rate less punitive than the current 35 percent taxation of dependent student assets. The theory can be considered apart from taxation rates. Although the student contribution would be lower as a consequence of reducing the 35 percent taxation rate, any increase in family income contribution that exceeds the the loss would still constitute a net gain for the need analysis system. Because dependent student asset contributions are presently a relatively small source of funds for education, the risk in making such a change is probably well contained.

### Questions for Review by Member Representatives

The Committee on Standards is not prepared to make a specific recommendation on modifying the methodology at this time, but anticipates further study during 1985 with an eye toward presenting a specific proposal at the 1986 regional meetings. A discussion of the following questions would be helpful to the Committee in guiding its own discussions during the coming year.

1. Is there a fundamental difference between student assets and parent assets? If so, does that difference exist only at certain levels of student assets (e.g., above $5,000)?

2. Should dependent students' assets be treated the same as parental assets for need analysis purposes?

3. Should the asset conversion rate be modified if the definition of family assets is adopted?

## 4. PRELIMINARY EXPERIENCE WITH THE NEW SELF-SUPPORTING STUDENT METHODOLOGY

In February 1983, the Committee on Standards transmitted to the membership for review a paper entitled "Starting Fresh: A New Independent Student Methodology and Other Issues in Need Analysis," which outlined a new approach to assessing self-supporting students' ability to contribute to the costs of education. After regional review, the CSS Council endorsed the proposal, which was subsequently adopted by the National Student [illegible] Coalition for the

1984-85 Uniform Methodology. (The Committee on Standards also proposed a new definition for self-supporting status in that same paper, although the Committee did not regard its adoption as a prerequisite for adopting the methodology changes; the existing federal definition, however, is currently frozen by statute.)

The new self-supporting student methodology was an effort to address what many financial aid administrators felt were inequities in the treatment of truly independent students. While agreeing that students have a fundamental responsibility to contribute as much as possible to the costs of their own education, and that it is appropriate that the UM tax student resources more heavily than parent resources, some were concerned that genuinely self-supporting students were being taxed too heavily. The methodological changes that the Committee on Standards and others proposed were based on the following four principles:

1. Students who have not accumulated personal resources should be able to receive financial assistance to pay for direct educational costs plus minimum living costs for themselves and their dependents.

2. All students and their families, through a combination of financial aid and personal resources, should be able to maintain a minimum living standard, perhaps as defined by the Bureau of Labor of Statistics lower budget standard.

3. Students and their spouses who earn income should be expected to contribute most of that income toward direct and indirect educational expenses. However, they should be allowed to retain a portion of that income in order to improve their standard of living.

4. All students should be expected to contribute a certain level of resources toward their education. This self-help typically would take the form of an earnings expectation that would also apply to the spouse of a married student. These earning expectations are subject to modification by the financial aid administrator.*

The new procedures revolved around five major areas: 70/90 marginal taxation rate for taxable income, minimum earnings expectations for student and student's spouse, 100 percent taxation rate for nontaxable income, 35 percent asset conversion rate for students without dependent children (12 percent for students with dependent children), and inclusion of a living expense allowance in the self-supporting student's expense budget.

## Early Experience with the New Methodology

The new self-supporting methodology has been in effect for only one year. Some aspects of the new methodology have been positively received by the aid community, such as the treatment for nontaxable income and the minimum standard expectations from student earnings. However, some aspects of the methodology have been heavily criticized.

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*"Starting Fresh: A New Independent Student Methodology and Other Issues in Need Analysis," The College Scholarship of the College Board, 1983, p. 4.

The major topic of concern has been the introduction of the marginal taxation rates. While some of the concern appears to stem from the fact of insufficient funding to meet students' full need, the majority of objections seem to be philosophical in nature and reflect aid administrators' doubts about the appropriateness of taxing the earnings of younger students who may be only nominally self-supporting. It is difficult to assess whether the objections to the marginal taxation rates would have been so strong had the methodology change been accompanied by a definitional change that would have reduced the number of applicants claiming self-supporting status, as some have suggested. There is also some reason to hypothesize that the concern over the marginal taxation rates is especially acute in those institutions that enroll substantial numbers of self-supporting students. A related concern is that under the new methodology, College Work-Study (CWS) earnings are taxed at 100 percent while non-CWS earnings are taxed at 70 percent -- an incentive for students to take off-campus jobs.

### Questions for Review by Member Representatives

Because there has only been a single year's experience with the new self-supporting methodology, the Committee on Standards is reluctant to recommend any adjustments for the 1986-87 UM, believing it would be preferable to develop at least another year's experience before a full evaluation and possible modifications could reasonably be made. The Committee notes that 1984-85 Institutional Summary Data (ISD) will allow institutions to review the comparative change in aggregate contribution levels using the marginal taxation rates rather than the 100 percent rates. Additionally, Message WW on the 1985-86 FAFNAR will provide an alternate calculation based on a 100 percent rate, permitting aid administrators to compare the effects of the new methodology with the old in individual cases. However, as discussed in Section III of this paper, the Coalition's Task Force on Student Earnings has recommended that the UM for 1986-87 be modified to permit institutions to substitute a 100 percent rate for the marginal taxation rates. The Committee on Standards invites the member representatives of CSSA to comment on the Task Force recommendation.

As the Committee continues to evaluate the impact of the self-supporting methodology in the coming year, response to the following question would be particularly useful:

1. Should the Uniform Methodology be modified for 1986-87 to permit institutions to substitute a 100 percent taxation rate for the marginal taxation rates?

Member representatives are invited to direct comments on other aspects of the new methodology directly to members of the Committee on Standards.

## 5. ISSUES OF VERTICAL EQUITY IN THE UNIFORM METHODOLOGY

Since the inception of the Uniform Methodology, members of the Committee on Standards and others have tended to focus most of their attention on issues of horizontal equity in assessing the ability to pay of families in similar financial situations. In the past year, however, the Committee has

increasingly turned its attention to issues of vertical equity and the extent to which appropriate PCs are generated for families in unlike circumstances.

The Committee has worked with CSS staff to develop and implement a major family financing study that will eventually provide some data about how much families are actually contributing and how they are financing their contributions. The Committee's concern with vertical equity is also reflected in its ongoing review of the standard maintenance allowance and the need analysis taxation system.

As was alluded to in the earlier section of this paper related to the medical/dental allowance, there are substantial reasons to be concerned about the validity of the SMA itself. The SMA represents the cost of basic necessities for all family members receiving over one-half support from the family, and is the major allowance against income in the Uniform Methodology. In addition, the SMA is a reference point for setting other allowances, such as the medical/dental allowance.

The fundamental data about family expenditure patterns that supports the SMA is almost 17 years old, deriving from 1967 Bureau of Labor Statistics (BLS) lower-budget expenditure figures for an urban family of four. Changes in federal data collection practices make it harder and harder to update the SMA with confidence. Patterns of consumption and expenditure have arguably changed radically since the most recent empirical work was done; expenditures for food have declined, while housing and transporation expenditures have increased; there is some evidence to suggest families are spending differently, with higher fixed costs such as mortgages and car payments having become a standard feature in many budgets.

Additional factors further complicate the problem. Beyond the absence of current empirical evidence that would permit an accurate recalibration of the SMA, there is growing disagreement about how such a standard should be properly set in the first place. One school of thought holds that the SMA should be "prescriptive" about what a family requires for basic necessities. The contrary opinion, expressed with equal conviction, is that the SMA should be "descriptive" of actual family consumption patterns. Whether prescriptive or descriptive, there is also disagreement about the level of existence that the SMA should represent, sometimes described as "low" versus "moderate."

Regardless of how the SMA is constructed, concern for vertical equity also requires a new look at the taxation system. Every tax system needs to be reviewed and adjusted periodically to assure that it is continuing to function as intended, particularly in the face of external changes. The last time that the need analysis taxation system was subjected to scrutiny was at the time of the creation of the Uniform Methodology, but even then, most of the core concepts developed in the early years were simply incorporated without much serious discussion. The environment in which need analysis is now functioning, however, has changed dramatically in the last 10 years.

The expansion of the applicant population to include increasing numbers of middle and upper middle income families who need assistance is one significant change. The expansion of available aid funds is another; as student aid has moved away from its earlier "scholarship" nature to encompass a wide range of

grant, loan, and work programs, questions can reasonably be asked about whether the definition of "need" for each type of aid is necessarily the same. A third change is that in the face of constantly escalating college costs, financing education or training after high school has become, less an immediate hurdle to overcome (as it was in the earliest days of need analysis), than a long-term commitment, usually including payout on loans over a lengthy period of time. This change raises questions about what a parental contribution actually is and when it should be expected. There are fundamental questions that need to be answered about how progressive the tax rates should be, where the zero point should be set (a question linked directly to how the SMA is constructed), and whether, in fact, a one-year picture of family income and expense in need analysis actually permits an accurate assessment of family ability to pay.

### Questions for Review by Member Representatives

The Committee on Standards is not prepared to make a specific recommendation on modifying the SMA or taxation rates at this time, but anticipates further study and research over the next year, supported in particular by the efforts of its two member economists. CSSA member representatives are invited to direct comments on these issues or others related to vertical equity directly to members of the Committee on Standards.

## III. STUDENT EARNINGS

Over the last two years, the Committee on Standards of Ability to Pay has had extended discussions about the treatment of dependent student earnings, and last year transmitted recommendations on two aspects of the question to the 1984 regional meetings. The first was a proposal to increase the minimum standard contributions from expected earnings; reaction to the proposal in the regions was mixed and the CSS Council subsequently declined to endorse an increase. The second recommendation was for an alternate FAF Need Analysis Report (FAFNAR) calculation that incorporated students' self-projected term-time earnings; the CSS Council approved that proposal but implementation was subsequently deferred for at least a year in view of a pending study by the National Student Aid Coalition.

The Coalition's Committee on Needs Assessment and Delivery created a Task Force on Student Earnings in early summer 1984, which issued its preliminary report in October [see Appendix I]. The preliminary report outlines, and solicits reactions to, five options for alternative treatments of dependent student earnings in need analysis.

The Committee on Standards urges CSSA member representatives to study the Task Force's five alternatives carefully. They have some common elements, none are major conceptual departures from the current system, and all are based on the fundamental premise that dependent students should be expected to contribute to meeting educational costs. The advice of the membership will assist the Committee on Standards in arriving at recommendations about the appropriate route to pursue for the implementation of changes in the Uniform Methodology, as early as 1987-88.

The Committee also notes that the "Foreword" to the Task Force's preliminary report indicates an interest in studying the effects of the new self-supporting student methodology as regards student earnings, an interest the Committee shares. In the interim, the Task Force is recommending that for 1986-87, the UM be modified to provide institutions with the option of assessing self-supporting student earnings at either the current 70/90 percent marginal rate or the 100 percent rate. While the body of the report concentrates on dependent student earnings, the related issue of self-supporting student earnings came up in many of the Task Force's discussions, as is reflected in the Foreword. Certainly such questions as parity in the treatment of student earnings between the two sides of the methodology and the appropriate taxation rates on self-supporting student earnings will be an appropriate subtext to the regional meeting discussions of the Task Force's report.

## Questions for Review by Member Representatives

The Committee on Standards is not prepared to make a specific recommendation on modifying the methodology's treatment of dependent student earnings at this time, but anticipates further study during 1985 and the issuance of the Task Force's final report later in the year, with an eye toward implementing a change in 1987-88. The Committee would appreciate reactions to the specific alternatives for treatment of dependent student earnings described in the Task Force report, as well as on the question of equity in the treatment of dependent versus self-supporting student earnings.

## Committee on Standards of Ability to Pay

Mary M. Murphy, Assistant Vice President, Student Services, Columbia University, New York, New York, Chairman

Keith McCreight, Associate Director of Financial Aid Office, Oregon State University, Corvallis, Vice Chairman

James A. Belvin, Jr., Director of Financial Aid, Duke University, Durham, North Carolina

Karl E. Case, Associate Professor of Economics, Wellesley College, Massachusetts

Allison G. Jones, Director of Financial Aid, University of Redlands, California

Rhonda D. Norsetter, Associate Director of Student Financial Aids, University of Wisconsin at Madison

Benjamin S. Sandler, Director of Financial Aid, Washington University, St. Louis, Missouri

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APPENDIX I

NATIONAL STUDENT AID COALITION

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**DRAFT**

Preliminary Report

of the

Task Force on Student Earnings

of the

Committee on Needs Assessment and Delivery

**DRAFT**

November 1, 1984

## Foreword

Attached please find the report of the Task Force on Student Earnings as per the 6/19/84 Committee on Needs Assessment and Delivery Charge to the Task Force. The Task Force met four times to consider the charge and to make progress on the challenges facing it regarding dependent and independent student earnings. I am greatly indebted to the members of the Task Force for their patience and cooperative nature during our deliberations and particularly appreciative of the contributions Linda Berkshire, Coalition Staff Director, and Mary Hayes, Coalition Staff Assistant, have made with respect to research, arranging the meetings, and contributing meaningfully to the discussions. Perhaps, the greatest effort was made, however, by Scott Miller, Coalition Senior Research Associate, who conducted the bulk of the research and drafted the preliminary and final reports.

The report is divided into three sections with a summary. The first chapter once again reaffirms the basic philosophy of need analysis and the one philosophical tenet that dependent and independent students "should have a responsibility to contribute to their education." The Task Force also felt that the principle of a Uniform Methodology which provides for the fair and equitable treatment of students should also be reaffirmed while retaining the necessity for the local financial aid administrator to take into consideration the uniqueness of aid applicants with unusual circumstances. Also included with Chapter One are the goals of the Task Force, the timetable assigned to us, and an explanation of the contents of the remainder of the report.

A second chapter gives a research overview and is, in my opinion, one of the highlights of the work of the Task Force. While this report is not to be regarded as the "last word" on the topic of student earnings, I do think we have collected about all of the research, opinion, and institutional data on the topic as it exists today. We have gathered general data regarding unemployment, self-reported data from first-time, full-time students about their work expectations, specific data from several states regarding student earnings, a great deal of institutional information, and data from the major service agencies regarding student earnings. Regrettably, most of the findings are mixed and there seems to be virtually no data available regarding the impact of the self-supporting student Uniform Methodology due to the fact that this is the first year of processing under this new treatment. Nevertheless, I feel confident that we have been thorough in our approach and gathered some valuable information although the data does not give any specific direction to the Task Force to take in making concrete recommendations to the Committee on Needs Assessment and Delivery.

As a result of a lack of clear direction from the research, the Task Force decided to offer several options for the financial aid community and other interested parties to consider. In Chapter Three, five options are outlined for the treatment of dependent student earnings. At this point, no options are outlined for the treatment of independent student earnings although it is apparent that at least two options exist: the current marginal taxation rate system and the previous 100 percent taxation system. While the life of the Task Force supposedly ends with the November meeting of the Committee on Needs Assessment and Delivery, the Task Force has taken upon the added responsibility of working with the National Association of Student Financial Aid Administrators and their rapid survey network. This network is a statistically valid sample of NASFAA member institutions utilized to gather data on a variety of topics related to financial aid administration. The Task Force has developed a survey to be used with the NASFAA rapid survey network to gain additional insights as to to how institutions are using the independent student Uniform Methodology. Hopefully, this data will be available later this fall. Further, the Task Force is awaiting 1984 data from the Cooperative Institutional Research Project (CIRP). This data should also give current information related to first-time, full-time students and their employment plans.

In Chapter Four, we propose an agenda for research and discussion for 1984-85, culminating in a final report to the Committee on Needs Assessment and Delivery by October of 1985.

Concurrently, the Task Force suggests that no major change, with the exception of one modification, be made in the treatment of student earnings in the Uniform Methodology for 1986-87 and that the 1984-85 year be one of discussion and deliberation as to how student earnings should be treated in the methodology.

In reviewing the treatment of self-supporting student earnings, there was a strong indication that there is currently a wide range of institutional policy and procedure. With the little data available to it, the Task Force assumed that what appeared to be a substantial range of institutional practice was a result primarily of the regulatory citation dealing with the treatment in packaging of the unassessed earnings of self-supporting students. That citation, issued in a letter by the Department of Education in April of 1984, "...allow(s) those institutions which choose to take...earnings not taken into consideration in measuring a family's ability to pay and include them in determining the student's resources and thus the unmet need."

There was substantial debate among the Task Force members as to whether to suggest the above practice for inclusion in the 1986-87 methodology. However, a majority of the Task Force agreed that the most reasonable way to recognize the differences in institutional practices was to recommend that CONAD provide institutions the option of assessing the earnings of independent

either the 70/90 percent marginal rates or at 100 percent. By including this option as part of its recommendations for the 1986-87 UM, the Task Force felt that the Committee would also strengthen its position in developing the Uniform Methodology and in initiating changes and modifications to the UM and making recommendations to the National Student Aid Coalition.

It is the Task Force's hope that this report can be the basis for discussions surrounding topics related to the Uniform Methodology, especially for the dependent student. Since the independent student Uniform Methodology is so new for everyone, additional research should be conducted at the end of the year to assess the impact of the methodology on students and institutions. Of particular importance is the potential differential impact the independent student Uniform Methodology may be having upon adult students and independent students who have dependents of their own. The Task Force feels that it simply cannot embrace the current methodology or suggest a different concept until an assessment of the first year's impact of the methodology has been made at the end of this awarding year. The single most important factor in this assessment, however, should to be to insure that groups of students representing particular segments of the larger student enrollment, i.e. adult and/or independent students with dependents, not be excluded from receiving the benefits of financial aid based upon a methodology which may be insensitve to the needs of individual students or groups of students.

Perhaps, the first step in this process of assessing impact is the rapid survey network results mentioned above. The Task Force would target 1987-88 as the first potential year of changing the Uniform Methodology regarding student earnings, if warranted then.

The Task Force has had only three months to examine the issue of student earnings, and while I think we have made a good start, more work needs to be done. Also, all parties involved in the development of the Uniform Methodology have agreed upon November 1, 1984 as the target date by which all issues for the 1986-87 processing year will be identified in order that all those concerned can be included in national and regional discussions. Since the student earnings issue should be given more time in our opinion, we will not be able to meet the November 1 target date.

We would like to suggest that the student earnings issue be folded into a larger discussion which will take place next year regarding the Uniform Methodology as it relates to the reauthorization of the Higher Education Act. Perhaps this would also bring the higher education community, Congress, and the Department of Education closer to utilizing one single need analysis (Uniform Methodology), with several subroutines encompassed within that single needs analysis, to determine program eligibility for the entitlement programs (Pell Grants and Guaranteed Student

Loans) while defining financial need for the other federal, state and institutional programs.

In the meantime, the Task Force hopes the attached report will be discussed during this year at financial aid meetings, service agency meetings, and at other appropriate times to gain further insight into how student earnings should be treated. Depending upon how these options are received and based upon further discussions this year it might be appropriate for the Task Force to be extended. Having just moderated a session on this topic at the Midwest Association of Student Financial Aid Administrators meeting with Paul Aasen and Andy Vignone of the Task Force, I could see the various members of the Task Force moderating similar sessions within their respective geographic regions. It might also be appropriate for the Coalition and/or its member organizations to sponsor one of our Task Force members to attend several selected meetings of financial aid administrators to present the report and gather information from the community.

In addition to our addressing the specific charge, there were also several side issues connected with this topic which we did not address but nevertheless often fogged the issue. Probably the most complex of these was the independent student definition. Some felt that if the independent student definition had been sufficiently addressed prior to the implementation of the new independent student Uniform Methodology, then the community would have accepted the new methodology more gracefully. This concern is based upon the fact that institutions have limited funding and want these limited funds to go to the most needy and deserving students. Some feel that the neediest and most deserving are those students that are either dependent upon their parents and as a total family unit cannot afford postsecondary education or those students who are independent and beyond the traditional 18-22 college age. Thus, the independent student definition issue is still a major consideration for many institutions. Until this issue is resolved, some institutions will not heartily embrace the current methodology because it is preceived as being more lenient in the treatment of all independent students including those who have managed to have become independent while attending school and utilizing financial aid to assist them in transferring their dependency from their parents to financial aid programs.

Another issue the Task Force debated at length related to whether an earnings expectation should be a part of the methodology with the institutional option to change the expectation to reflect local employment conditions or unusual circumstances or whether, in fact, the earnings expectation should be reflected in institutional aid packages. The Task Force felt, as mentioned earlier, that students should definitely be expected to contribute toward their education. Beyond that expectation it was also felt that an earnings expectation should be included as a part of the Uniform Methodology with the institution having the option to change the amount expected to reflect local employment conditions

or unusual circumstances. The Task Force further concluded that the institution should have the flexibility to allow the student to either work or borrow this expectation as a part of the financial aid package if the expectation is not met. This practice re-emphasizes the self-help concept but retains the flexibility necessary for students to potentially benefit if they do not meet the earnings expectation.

Finally, while this report may not be necessarily as definitive as the Committee on Needs Assessment and Delivery might have wanted, I do think it represents our best effort to date. When taking on the responsibility for chairing this Task Force, I had two underlying principles for our deliberations: first, I wanted us to do a thorough job in approaching the topic by gathering as much information about the topic as we could -- I think that has been achieved. Second, I wanted the community and the participants on the Task Force to feel that the process by which we examined this topic was open to comment and a free exchange of ideas. Given our time constraints, I think that too has been achieved. I do think to make strong recommendations to alter the current treatment of dependent or independent student earnings with the mixed data we have on dependent students and the little data we have on the independent student treatment would only serve to cause people to think that again the system has been changed without proper consultation with the community and might ultimately result in a distrust of the open process we all seek.

I want to thank John Brugel, Chairman of the Committee on Needs Assessment and Delivery and the respective members of the Committee for the opportunity to chair this important Task Force and to work with colleagues whom I enjoy and respect. As the report is distributed and discussed, I encourage all those who have questions or comments to contact me, other meembers of the Task Force, or the staff of the National Student Aid Coalition.

Larry H. Dietz, Chair
Task Force on Student Earnings

# Chapter 1

# INTRODUCTION

## Basic Philosophy of Need Analysis

Certain fundamental principles underlie the concept of need analysis and the Uniform Methodology and are reflected in many of the individual components of the methodologies. These principles are the basis for developing a common method for determining family financial strength. In assessing the treatment of student earnings, one must be careful to view it in context of the methodology as a whole and as one of several factors used to develop a measure of the ability of families to meet the costs of postsecondary education.

Need analysis was originally developed in the 1950's by a small consortium of independent colleges as a way to define in a consistent manner the relative need of families applying for need-based student financial assistance. These colleges saw the need for the equitable treatment of families and the advantages of a system that would enable them to assess a family's ability to pay for college.

Then, as now, a basic set of philosophical tenets stood at the core of the need analysis formula. Among the most crucial ideas are that:

- parents bear the primary responsibility for financing the postsecondary educations of their dependent children;
- students, as the prime beneficiaries of the educational experience, also have a responsibility to contribute to the costs of their education; and
- student aid, in the form of grants, loans, and work-study, is intended to fill the gap between available family resources and the cost of attendance.

In 1975, the National Task Force on Student Aid Problems released its final report. The task force, chaired by Francis Keppel, recommended the adoption of a uniform method for determining the financial strength of families applying for student aid funds. In line with this recommendation for a national standard of ability to pay, the Keppel Task Force also noted that,

> need analysis requires an individual aid administrator to review, adjust, and modify the results of the (need analysis) to reflect the particular circumstances of the individual student. (National Task Force on Student Aid Problems. Final Report. P. 15)

The recommendations of the Keppel Task Force on need analysis are embodied in the Uniform Methodology which is in place today and is used to determine eligibility for certain federal, state, and institutional student aid programs.

One of the guiding principles of need analysis, and the Uniform Methodology specifically, is the ability of the system to serve students and families in a fair and consistent manner. The goal of a national system of needs assessment is to ensure that families will receive the same treatment no matter where

they apply to school. Similarly, it is important that families in like circumstances be treated in a like manner in their application for aid -- the principle of equity. While equitable treatment is the goal of the need analysis system, the difficulty in creating a single national system that assesses the need of millions of families whose individual circumstances may vary greatly, is evident. Thus, the system in operation today combines a national standard with the responsibility of campus aid administrators to take into account local economic conditions and the situations of individual aid applicants.

Currently, the Uniform Methodology includes a standard minimum contribution from expected earnings (also called summer savings) for dependent students of $700 for freshmen and $900 for all other students. These amounts represent a savings expectations from summer employment and are based on a 30-hour work week for 10 weeks at $3.35/hour (minimum wage) for freshmen and a 40-hour work week for 10 weeks at the same rate for all other students. Built into the concept is the assumption that the dependent student derives basic support from his or her parents; thus, the student's own income, after allowances for minimal expenses and taxes, should be available to meet educational costs.

The two major needs analysis service agencies (ACT and CSS) instruct institutional aid administrators that these earnings expections should be viewed primarily as guidelines to institutions. The procedures emphasize that adjustments may need to be made to reflect local conditions or individual circumstances. In addition, institutions are given the opportunity to provide to the service agencies their own figures for the treatment of expected earnings, or summer savings in the need analysis formula.

One of the primary functions of the National Student Aid Coalition is to develop and maintain the standards by which financial need is measured. Each year, the Coalition's standing Committee on Needs Assessment and Delivery (CONAD) reviews the Uniform Methodology and develops recommendations for the consideration of the Coalition.

The calendar for 1986-87 (attached as Appendix E) illustrates the annual process through which items in the Methodology are identified for review by CONAD members and issue papers are developed for presentation and discussion at regional meetings of financial aid administrators. In the Spring, recommendations are then advanced by CONAD to the Coalition's Executive Committee for initial review. At this point, the recommendations--which may include substantive changes in the treatment of particular elements in the Methodology as well as inflationary adjustments--represent those that have been subjected to community review and upon which the majority of the members of the Committee have agreed. Recommendations are then presented for approval to the full Coalition, which consists of representatives from thirty-six national associations and organizations with an interest in student financial aid, and four public members.

The Uniform Methodology generally has been accepted as a "consensus methodology" for measuring family ability to pay for postsecondary education. The development of an acceptable, common national standard is made possible largely by the process that includes and encouragaes the representative participation of students, postsecondary institutions, aid administrators, States, need analysis service agencies, and the federal government.

## Goals of the Task Force

> In order to gain more information and to assist in arriving at its decisions for the 1986-87 academic year, the Committee on Needs Assessment and Delivery (CONAD) of the National Student Aid Coalition establishes a Task Force on student Earnings. The goal of the Task Force will be to compile, examine, and evaluate relevant data and other information on the treatment of student earnings in the Uniform Methodology, and develop options on this subject for CONAD's consideration.

The above is an excerpt from the charge of the CONAD Task Force on Student Earnings (Task Force) which was created in part, as a response to proposals to modify the expectation that dependent students contribute a set amount from their earnings to offset postsecondary costs. As it deliberated on suggestions to raise the amount that dependent students would be expected to contribute, it became clear to the members of CONAD that more information was needed to help determine an appropriate expectation. The chair of CONAD appointed a Task Force which is composed of representatives of the national need analysis services, student financial aid administrators, associations of postsecondary institutions, and students to examine the ability of students to earn and to arrive at a way to determine the proper level of dependent student contributions. A list of the Task Force members is appended to this report.

In the course of its deliberations, the Task Force has reviewed a great deal of information and data concerning the earnings potential of students and the actual earnings and savings reported by students. A thorough review of the research examined by the Task force is included as Chapter 2 of this report.

In order to meet the challenges before it, the Task Force has met four times:

- July 22, 1984 in Orlando, Florida (in conjunction with the NASFAA annual meeting);
- August 14, 1984 in Washington, DC;
- September 19, 1984 in Washington, DC; and
- October 19, 1984 in Washington, DC

## Chapter 2

## RESEARCH OVERVIEW

### Introduction

One of the primary reasons behind the formation of the CONAD Task Force on Student Earnings was the need to examine the issue of student earnings in an empirical manner. A major priority of the Task Force has been the review and analysis of factual information on the ability of dependent students to earn and save and the reasonableness of the current and proposed earnings expectations.

In the course of its work, the Task Force has attempted to review data from various sources on the many facets of the student earnings question. The Task Force has been struck by the paucity of reliable national data on student earnings and has, thus, relied upon state and institutionally produced information. This has presented many challenges to the Task Force in its efforts to draw nationally applicable conclusions from the material it has reviewed. First, the data have been collected in several different years, which makes comparability very difficult and the meaning of earnings figures less clear. Second, the data have not been collected according to standard procedures and definitions, again making comparisons difficult and limiting the Task Force's ability to combine the individual study findings into a comprehensive, national picture.

### A Call for Data

In order to ensure that all possible sources of information on student earnings were made available for its review, the Task Force issued a national call for data on this topic. In cooperation with several organizations and associations, the Task Force informed the postsecondary education community of the nature of its work and called for the submission of reports, studies, and other materials that would be of value to its deliberations on student earnings. Among the specific measures taken were:

- an announcement in the newsletters of the National Association of Student Financial Aid Administrators (NASFAA) and several state and regional associations of aid administrators;
- a letter to the members of the College Scholarship Service (CSS)
- a special edition of the American College Testing Program's (ACT) Newsletter for Financial Aid Administrators; and
- a "Dear Colleague" letter from the director of the National Student Aid Coalition which was mailed by the U.S. Department of Education to all of those on the mailing list of the Office of Student Financial Assistance.

The information provided has ranged from recent state surveys of students, to information on the earnings of students at specific schools, to anecdotal illustrations of various issues, to the opinions of campus aid administrators. The Task Force has received over sixty responses to its requests and is very

grateful to the organizations that assisted in its data collection efforts and to those who took the time to submit materials.

## Research Overview

The following is an overview of the research and information that has been reviewed by the Task Force. The findings are grouped into categories in order to organize the material in a logical manner; no attempt is made here to weigh the value of the individual pieces of data nor is the information listed in order of its importance to the Task Force.

### General Economic Data

In order to gain insight into the earnings potential of students during periods of enrollment and nonenrollment, the Task Force examined information on the general economic health of the nation and the employment prospects of college-age youth.

The Task Force reviewed information prepared by the U.S. Department of Labor, the Bureau of Labor Statistics, the Council of Economic Advisors, and the National Center for Education Statistics. Some of the key observations drawn from these data are:

- Rates of unemployment vary greatly by sex, race, and age:
  - -- youth unemployment is higher than overall unemployment.
  - -- the unemployment rates for blacks and women are usually greater than for white males.
  - -- for black, young women, the unemployment rate may reach 50 percent.
- Almost one-fourth of all employed high school seniors receive subminimum wages.
- Persons unemployed as of May 1984 reported being out of work for an average of 9 to 18 weeks.

The Task Force found very little data collected by the U. S. Government that is directly relevant to dependent postsecondary students. In order to draw any conclusions from these data, assumptions had to be made that most students fall into some of the Labor Department's standard categories. From the Task Force's perspective, though, the usefulness of this type of information was severly limited.

### CIRP Data

The Cooperative Institutional Research Project (CIRP), a joint project of the Higher Education Research Institute at U.C.L.A. and the American Council on Education, annually collects data on the incoming class of first-time, full-time freshmen students at colleges and universities across the nation. Among the wide-range of information gathered from these students is a detailed look at how they plan to finance their postsecondary education.

Of specific interest to the Task Force were questions which asked the students how much they expected to contribute towards their college expenses

from savings garnered from summer and term-time earnings. Some of the more significant observations from the 1983 CIRP data are:

- Nearly 60 percent of all freshmen reported that they did not expect to contribute anything from summer earnings.
- Less than one-fourth of all freshmen expected to contribute towards their educational costs from term-time employment, either full- or part-time.
- Men were more likely to expect to contribute from savings than women.
- A greater proportion of freshmen students at universities than at two-year and other four-year colleges expected to contribute from their summer and term-time savings.
- Most students expecting to contribute from their summer savings reported that they would have under $1000 available to them from this source.

Data from the 1984 CIRP survey will be available early in 1985.

The ability to draw conclusions from the CIRP data is limited because the information is self-reported, by the student, and unverified. The data cited above are for dependent and independent students, although over 80 percent of CIRP respondents are dependent on their parents for support.

State Data

Several states have compiled information on the earnings of dependent students. Some have collected information via special student resource and expenditure surveys, while others have assembled data from persons who have filed applications for state sponsored student assistance programs.

These data have been very valuable to the Task Force since they provide a detailed look at the earnings of a large number of students. It is difficult, though, to compare data across states because of the different years in which they were collected and the various ways in which the data were compiled. Rather than concentrating on the raw numbers (i.e., the actual reported earnings figures), the Task Force has been struck by some of the patterns that are apparent from a review of the data.

The Task Force has reviewed data from New York, California, Iowa, Arizona, Illinois, and Indiana.

Information received from California and Illinois clearly showed patterns of earnings that were directly related to the income or parental contribution of the dependent student's family. Income earned by the student was considerably higher in both states for students from higher income backgrounds than for their low-income counterparts.

Data from Indiana, Iowa, Arizona, and New York indicated that the amount students earn varies greatly.

- A 1983 survey of Arizona postsecondary students showed reported earnings between $1 and more than $10,000. This study collected information on dependent and independent students, aid recipients and non-aided students.

- A 1981 New York State survey of dependent and independent aid recipients reported that 46% of the respondents earned between $2,000 and $3,000

- 89 percent of those responding to a survey of Iowa aid applicants reported earnings in excess of $2,500 in 1984.

- A survey of all Indiana postsecondary students showed that 41 percent earned less than $1,200 in the previous year.

It is very difficult to compare the data collected by the states because of the different years in which the data were collected, the varying ways in which the questions were asked, and the lack of consistency among the survey respondents. Further work needs to be done to refine the state data bases and develop ways to compare the results in a more meaningful manner.

Institutional Information

The majority of the information received by the Task Force concerned institutional policies on the treatment of dependent student earnings. Responses were received from public, independent, two-year, and four-year colleges. The information submitted has varied widely as have the treatments of dependent student earnings that have been brought to the attention of the Task Force.

Several general themes emerged from the institutionally submitted information:

- A number of aid administrators suggested that the earnings of dependent students should be assessed in the same manner as the earnings of self-supporting students. Most of those making this suggestion viewed it as a question of equity; i.e., that there is no reason to differentiate between student earnings whether earned by a dependent or self-supporting student.

- Several institutions establish earnings expectations for their dependent students via student surveys that collect information on the actual earnings of students during periods of enrollment and non-enrollment. Schools such as Purdue University, Providence College, and Loyola Marymount University have conducted surveys to determine the proper level of the standard earnings expectation for dependent students. These standards reflect the current conditions of their students as well as local market conditions which may render national standards less meaningful.

- Some institutions adjust the earnings expectations included in the Uniform Methodology according to their perceptions of the earnings potential of their student body. Institutions may, for example, lower the expectation because the area in which their school is located may be economically depressed or experiencing a high rate of unemployment. Other schools may raise the expectation because of the ease with which their students can expect to find jobs or because the skills of their student body allow them to earn higher wages than the average.

In addition some aid administrators indicate that they verify the aid applications of all dependent students and assess their actual earnings as reported; others evaluate each student individually to determine the reasonableness of the U.M. expectations; while others allow students to meet their earnings expectation with work-study employment.

With such a wide variance in practice, it is impossible to develop a profile of a typical institutional policy on dependent student earnings. In order to gain a clearer understanding of the way institutions are treating these earnings, the Task Force examined information on this topic that was compiled by CSS, NASFAA, and ACT.

SUNAPP Study

In 1984, CSS and NASFAA collaborated on a survey of financial aid administrators entitled Survey of Undergraduate Need Analysis Policies, Practices, and Procedures (SUNAPPP). Among the topics examined in this study were institutional policies on the treatment of dependent student earnings. Specifically, aid administrators were asked whether they used the Uniform Methodlogy earnings expectations and, if not, what they used instead:

- Nearly two-thirds of the respondents used the national standard U.M. expectations for dependent students. Public institutions used the U.M. standards to a lesser degree than independent and other institutions.

- Over 85 percent of all schools treat dependent student earnings along the same lines as the U.M. recommended treatment, setting minimum contributions for their dependent students.

- Other methods used by schools in treating dependent student earnings are:

  -- establishing standards that vary by year in school or by level of parental income or parental contribution, and

  -- assessing the actual summer earnings of dependent students.

- More than half of the respondents said they do not adjust their aid offer (generally assumed to be campus-based and institutional aid) if the summer savings expectation is not met.

ACT Data

ACT provided information to the Task Force based on a 1983 survey of 198 institutions. The results of this survey showed that 94 percent of the schools expected a summer savings expectation from dependent students. Among these schools, the average expectation was $670 (below the U.M. standard). Additionally, more than half of the institutions assessed estimated year earnings as part of their need analysis for dependent students. ACT's analysis of a sample of its aid applicants showed a clear correlation between a family's calculated parental contribution and the level of earnings reported by the student.

Research Summary

The CONAD Task Force on Student Earnings has reviewed a great deal of material during its deliberations on the issue of the treatment of dependent student earnings. While the Task force has been frustrated by the lack of a single national data base from which to work, it has been heartened by the amount of information it has been able to uncover in the limited time it has had to deliberate.

One of the most striking points is the vast array of approaches to the treatment of dependent student earnings, most of which have been developed by institutions as ways to respond to local needs and priorities. This has complicated the task of identifying a single method for treating dependent student earnings that will be equitable for all students at all institutions. Thus, the Task Force has chosen to develop a series of options for CONAD's consideration.

## Chapter 3

## OPTIONS

In developing approaches to the treatment of dependent student earnings, the Task Force considered several strategies for determining and assessing the proper contribution that students should be expected to make from their earnings and savings. Five options for the treatment of dependent student earnings have been identified by the Task Force. These options represent alternate methods for calculating and assessing the amount that dependent students should contribute from earnings to their educational costs.

All of the options developed by the Task Force are intended to be placed within the current framework of the Uniform Methodology. This framework included the concept of institutional discretion, and the responsibility of student aid administrators to evaluate the individual circumstance of aid applicants and their families to determine whether the methodology calculations accurately portray the ability of the student and family to contribute towards the cost of postsecondary education.

Both ACT and CSS emphasize the need for aid administrators discretion and the role it plays in ensuring equitable treatment. The 1984-85 edition of the CSS Need Analysis: Theory and Computation Procedure includes the following statement on this principle:

> The CSS standard earnings expectations serve primarily as a guideline to what the student's responsibility toward his or her education should be. Because of their knowledge of local conditions, financial aid administrators are better able to judge the reasonableness of these expectations. Opportunities for employment and hourly earnings may vary considerably among geographic regions and even by size of city. In addition, it may be impossible for a student to obtain employment... (page 16)

In these cases, aid administrators are advised to do what they can to, "assist students... through loans or employment during the academic year."

The Task Force urges aid administrators to continue the practice of reviewing the reasonableness of earnings expectations and believes that this principle is an essential part of all of the options that it has identified. The Task Force also acknowledges that not all aid offices are equipped to modify earnings expectations or to thoroughly review the situations of all aid applicants. It is for this reason, that the Task Force has been careful to explore all options and is advising that serious consideration be given before selecting any option on the standard treatment of student earnings.

### Term-time vs. Summer Savings

One of the most basic issues considered by the Task Force as it developed the options described below involved the differentiation between income earned and saved during periods of nonenrollment (known colloquially as "summer savings") and income earned and saved during the academic term (while the student is enrolled in school). Historically, the Uniform Methodology has

included an expectation that dependent students should contribute a specified amount to the cost of their education from savings accrued from earnings received over the summer months. It is only recently, in fact, that the College Scholarship Service has discontinued use of the term "summer savings expectation" and has instead, begun to label this as "minimum standard contribution from expected earnings". These earnings may be received during the summer, over vacation periods, or during the school year.

The Task Force noted that for purposes of determining the proper level of a student's contribution, there are legitimate distinctions to be made between earnings garnered during periods of nonenrollment and term-time earnings. While the savings derived from term-time and nonenrollment earnings may be intermingled by students as they attempt to meet their calculated contribution, there are differences in the ways to assess, and calculate minimum expectations from, these different sources of student income.

OPTION I: 12 Month Expectation

One of the options for the treatment of dependent student earnings is the development of a 12 month earnings expectation. By utilizing a 12 month expectation, the need analysis would be able to capture the full breadth of student earnings and help ensure that dependent students contribute to their education from all available resources. Several research items reviewed by the Task Force indicated that students who work during the academic year may earn a considerable amount in addition to what they earn during the summer months; the use of a 12 month expectation would provide a means for recognizing these earnings as part of the Uniform Methodology.

With the 12 month expectation as a starting point, the Task Force identified several approaches to deriving the proper level of a dependent students' contribution from earnings.

Standard Minimum Expectation

One way to approach the 12 month option is to set a standard mimimum expectation from earnings based on a full year construct. In considering this approach, the Task Force identified $1200 as an appropriate figure -- the same amount specified as the "minimum contribution from taxable income" (MCTI) that is currently applied by the U.M. to self-supporting students. The $1200 figure derives from the following monthly expectation for students:

45 hours worked per month
x3.35 minimum wage
=150.75 gross earnings

- 45.25 (30% allowance for expenses)
=105.50
rounded to $100 per month

This construct results in a reasonable standard expectation even for students attending summer school or enrolled in 12 month postsecondary programs. In general, students would be expected to work an average of 10 hours per week at minimum wage for 50 weeks each year.

Variable Minimum Expectation

Another method of assigning a 12 month expectation to dependent students is to develop a mimimum that varies according to the parental income or expected contribution of the student's family. The Task Force has reviewed several studies that point to differences among students in their ability to obtain employment and in the amount they are able to earn. Analysis of earnings among students in California and Illinois reveals a correlation between student earnings and the income level of the student's parents. Figures 1 & 2 illustrates the relationship between parental income and student earnings in California and Illinois. California, in fact, has used the earnings information it has collected as the justification for a variable minimum expectation for dependent students applying for state grant funds. The Task Force recognizes the merits of such an approach and has identified the use of a variable contribution schedule as an optional way to assign a 12 month earnings expectation to dependent students.

Three Month/Nine Month Expectation

A variation on the 12 month earnings expectation is to retain the distinction between summer and term-time periods, and assign different expectations for each period. For example, different constructs could be created for the three month summer period and the nine month academic year. While students might be expected to work 30 or 40 hours per week during the summer months, they would not be held to such a rigorous schedule during the academic year.

Use of this construct could raise significantly the minimum expectation for dependent students. For upperclassmen, the expectation for the three summer months is currently $900. Under the formula used to derive the 12 month standard expectation, above, the nine month academic year contribution would be $900, for a total contribution of $1800 per year. Of course, the manner in which these contributions are derived could be adjusted if it was felt that the resulting expectations were unreasonable. This option may be more reflective of the way students earn, and it acknowledges the considerable differences between students' earnings potentials and patterns during summer months and the academic year.

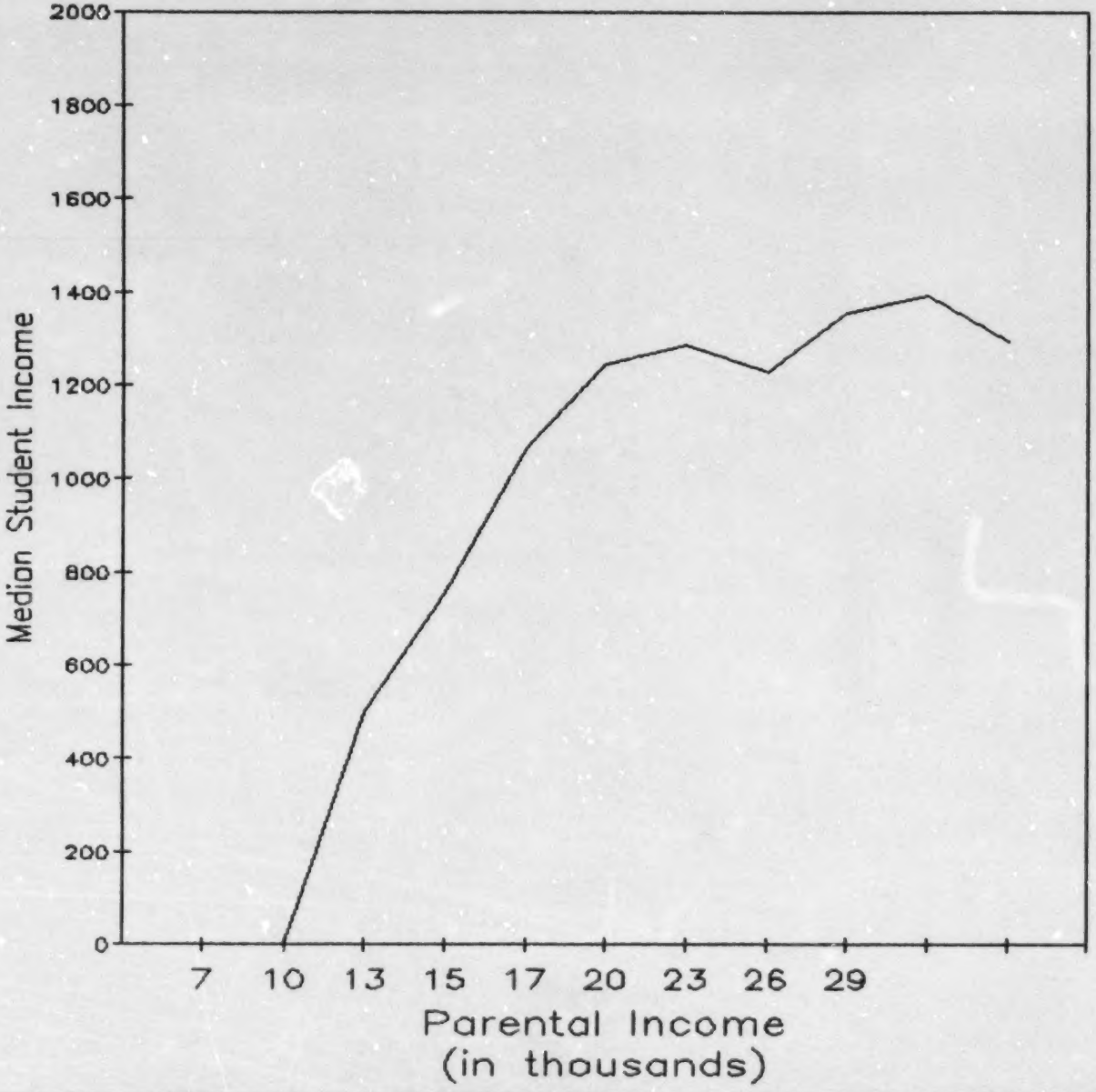
OPTION II: Three Month Expectation

This option is based on the premise that the bulk of student earnings occur during the traditional periods of nonenrollment, the summer months. The Task Force has identified two ways to develop an expectation for this three-month period.

Standard Three Month Expectation

This option reflects the practice currently employed in the Uniform Methodology, requiring a standard amount to be contributed by students from their summer earnings. While CSS has discontinued use of the term "summer savings expectation," the construct used to determine the level of this expectation is centered around the student's employment during the three summer months. This option considers only the time when students are most likley to be employed and when they are able to earn the most money. The standard expectation assigned to students under this option should be derived from a construct that accurately reflects the earnings potential of dependent students during periods of nonenrollment.

# FIGURE 1



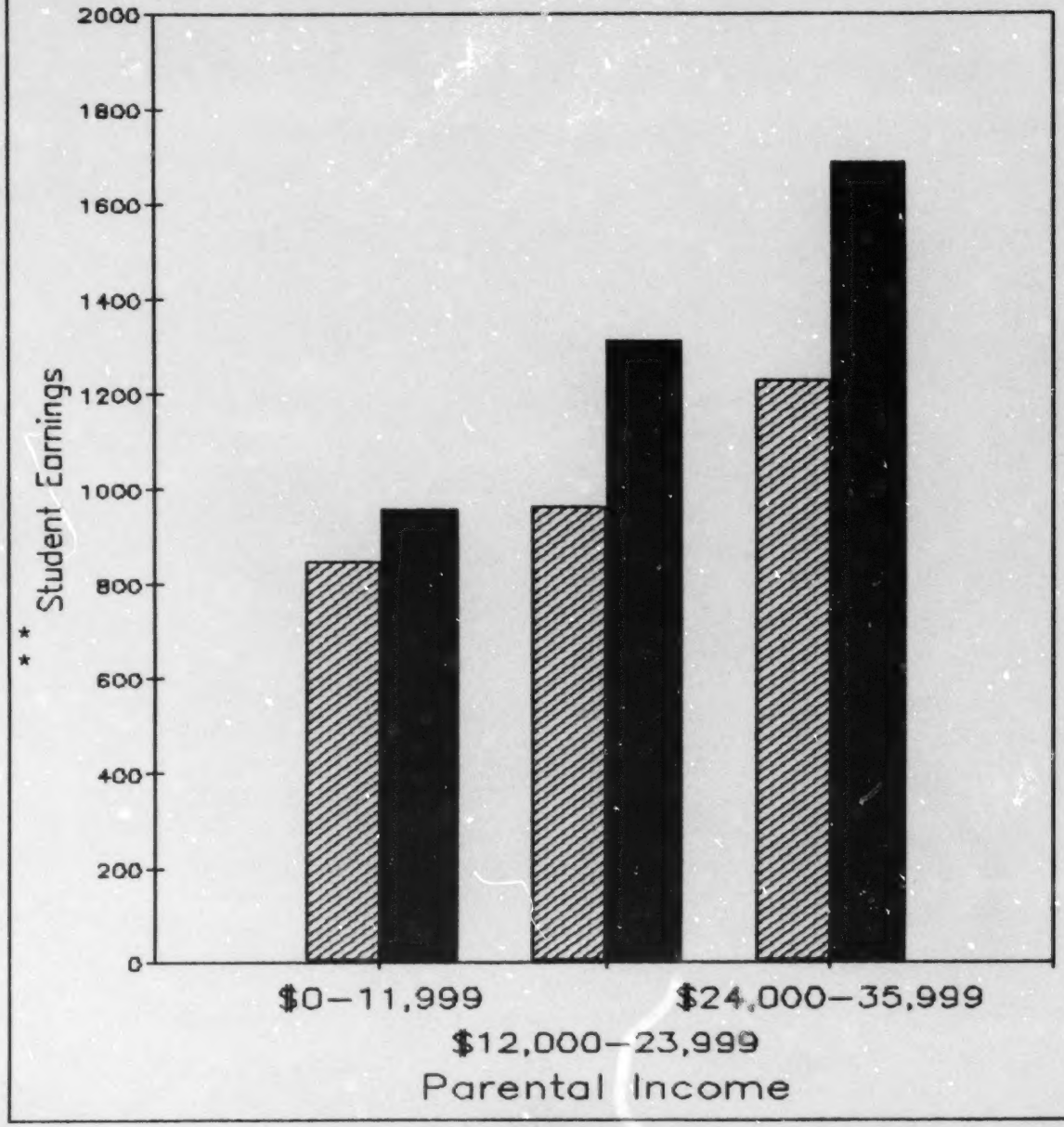

Student Income

ILLINOIS STATE SCHOLARSHIP COMMISSION

Student Income by level of median parental income.

1982-83

# Figure 2




Summer Earnings

Term–time Earnings

*STUDENT FINANCIAL AID STUDY-

University of California

1982-83

* Survey respondents included all students at the University of California

** Student earnings includes College Work Study

Variable Three Month Expectation

Under this option, different standard expected contributions would be assigned to students according to the levels of their parental contributions (PC) (see figures 1 & 2). As described above in Option I, the Task Force has seen evidence that there is a correlation between levels of parental contributions and the earnings potential of students. In order to account for these differences, a maximum contribution from summer earnings (e.g. $1200) would be established for students whose parental contribution exceeded a set figure (e.g. $3000). Students from families with PC's below that figure would have expected earnings contributions that decreased in proportion to thier parental contribution. For example, students whose parental contribution was $2000 might be expected to contribute $800 from their summer earnings.

OPTION III: Assessment of Projected Earnings

One option for the treatment of dependent student earnings is the assessment of projected earnings. Given the necessity to submit financial aid applications before the summer, assessments would have to be applied to estimated or projected summer earnings. This approach is very similar to the self-supporting methodology which relies on earnings projections.

There are two ways to implement such a policy. The first would be to agree upon a flat-rate assessment of projected earnings. The amount assessed would then be designated as the student contribution from expected earnings.

An alternate suggestion would be to establish a minimum contribution for all students. Students whose assessed earnings were equal to or less than the minimum would contribute the mimimum amount. When net income exceeded the minimum, the students contribution would be the amount of the net earnings. In this manner, all students would still be expected to contribute and the methodology would be able to factor in the resources of students whose earnings capacities and opportunities exceed the norm.

This option could be applied to either the three month summer period or to the full, 12 month year.

OPTION IV: Three Month Requirement/Nine Month Option

This option combines several features from options previously considered and molds them into a comprehensive package for the treatment of dependent student earnings. Under this option, a minimum standard savings expectation from periods of nonenrollment (traditionally the summer months) would be required of all dependent students. This expectation could either be a standard amount for all students or one that varies by the level of expected parental contributions. Unlike the present system, which only considers the expectation, this option would require the assessment of net income earned by the student. If the result of the assessment is less than the expected standard, then the standard would apply.

The second part of this option involves the assessment of earnings accrued during periods of enrollment (term-time earnings). Under this option, students would be required to contribute from earnings during the school year. Aid administrators would be given the option to include an assessment of the student's projected term-time earnings as part of the Uniform Methodology calculation of the student contribution, which includes both the expectations

from periods of enrollment and nonenrollment. Or, they can choose to consider only the nonenrollment period earnings as part of the student contribution and treat term-time earnings as part of the aid package (so that the student would be expected to earn a specified amount during the year as part of his or her self-help contribution). No matter which method for treating earnings is selected, the student would be expected to contribute from earnings throughout the year.

Administratively, this option presents certain complexities that would have to be addressed by aid administrators. The easiest way to implement such an option would be to have aid administrators select their preferred method and instruct the need analysis services to calculate student contributions on that basis. Conversely, it might be more difficult to implement this option for institutions that do not subscribe to the services provided by the need analysis agencies.

OPTION V: Assessment of Base-Year Earnings

A fifth option identified by the Task Force calls the assessment of students' base-year earnings--that which is earned in the year prior to application. This concept is similar to that which is used to assess parental contributions from earnings.

By using prior year earnings, this option makes the verification of student-reported information much easier and assumes that the student will be earning and saving approximately the same amount while enrolled as he/she earned in the prior year. This option might also necessitate collection of more data by the financial aid administrators in the event a student experiences a reduction in earnings or is unable to obtain employment while enrolled.

This option could be employed in conjunction with a minimum standard expectation. In this manner, base year earnings would be assessed according to a standard rate. If the result of this assessment is less than the minimum standard, the standard would be used.

SUMMARY

The above options represent five approaches to the treatment of dependent student earnings. While varied in their approach, all five have common elements and all are based on the same fundamental philosophy, that dependent students should be expected to contribute to their own education. The 12 month earnings construct, the three month savings expectation, and the assessment of projected earnings are not major departures from the present system; all will reinforce the foundations of the methodology and result in the inclusion of student resources as part of the total family contribution for dependent students.

These options represent standard approaches to the treatment of student earnings. There are a great many reasons why these options may not be applicable to individual students or to certain groups of students. Aid administrators must be prepared to review the appropriateness of the standard treatments and adjust them to suit the specific circumstances of their students. The Task Force emphasizes that no matter which option is eventually implemented, financial aid administrators must still have the obligation to review the circumstances of individual students.

# CHAPTER 4

## THE NEXT STEPS

In order to thoroughly examine the issue of dependent student earnings and the treatment of self-supporting students the Task Force needs more time to conduct reasearch, gather opinions and information, evaluate the operations of the current uniform methodology, and develop alternative approaches.

The Task Force has learned a great deal during the past four months. One of the difficulties it has faced has been the lack of consistent, comparable, or directly relevant research into the topics under its charge. While much has been learned about student earnings, much is still left to be explained. The Task Force has been greatly encouraged by the information it has uncovered and by the cooperation and assistance it has received from the postsecondary, and specifically the financial aid community. With more time and an increasingly clearer vision of the job before it, the Task Force expects to be in a better position to recommend preferred options and anticipate the results of their adoption.

### Research

As noted, there is more to be done before we can completely understand the full range of issues related to the treatment of dependent and independent student earnings. Several sources of data have not yet been explored by the Task Force, including:

- Information derived from the College Scholarship Services' national institutional summary and the ACT national profile of financial aid applicants data which will shed light on the effects of different assessment rates on the earnings of self-supporting students.
- Surveys which will be conducted by the Task Force in cooperation with NASFAA.
- Information obtained through a national survey of aid recipients at public and independent colleges and universities.
- Data collected as part of the institutional applications for, and reports on, federal campus based assistance (FISCOP/FISAP)
- State surveys of postsecondary students and data files of applicants for state-sponsored student aid.
- Institutionally gathered data on their student bodies and/or aid recipients.

Again, the Task Force will rely on the aid community for assistance and guidance in identifying and collecting previously unexplored sources of information.

Timeline and Plans for Dissemination and Discussion

The Task Force recognizes that a crucial part of its work involves the communication of the information expressed in its report with practicing financial aid administrators, students, and others concerned with the treatment of student earnings and resources in the Uniform Methodology. In addition to the solicitation of comments on the report--primarily on the treatment of dependent student earnings--the Task Force proposes to develop an expanded body of information on the use and impact of the recently enacted Uniform Methodology for self-supporting students. The Task force is interested particularly in learning more about the characteristics (i.e. age, sex, family size, enrollment classification) of self-supporting students for whom the new methodology was assumed to apply, as well as data on reported and actual earnings of self-supporting students.

The Task Force will also be seeking specific information on institutional experience and practice regarding the implementation of the new methodology and the treatment of the earnings of self-supporting students and their spouses.

In order to assure a full and open discussion and to allow for the participation of all who are interested in, or may be affected by the issue, the Task Force recommends that discussion of the report, its findings, and recommendations take place at national and regional association meetings over the coming nine months.

The Task Force is concerned that an effort be made to communicate with and invite the participation of all constituencies represented on the National Student Aid Coalition that have an on-going interest in the development of need analysis standards. The members are also concerned that discussions be national in scope and representative and perhaps, more importantly, that the participation be sought of organizations and their members who have been traditionally underrepresented in need analysis development and whose constituents might be disproportionately affected by any recommendation the Task Force might make.

Accordingly the Task Force suggests that the Chairman of the Task Force and of the Committee on Needs Assessment and Delivery communicate directly with the following organizations and associations represented in the National Student Aid Coalition.

A proposed timetable for presentations and discussions, further deliberations, and reporting for 1984-85 is presented below:

1984

November — Presentation of preliminary report to CONAD
Initiate survey through NASFAA rapid survey network

Meetings

American Association of State Colleges and Universities
American Council on Education
National Association of State Universities and Land-Grant Colleges

National Association of Student Financial Aid Administrators- National Council
College Scholarship Service- Committee on Standards of Ability to Pay
United States Student Association- Conference of State Student Associations

December — Association Meetings

American College Testing Program- Southwest Advisory
California Association of Student Financial Aid Administrators
Council of Graduate Schools
Southwest Association of Student Financial Aid Administrators

1985

January — Task Force meeting- Research update

Meetings

National Association of Independent Colleges and Universities
National Coalition of Independent College and Universities Students

February — Meetings

American College Testing Program- Eastern, Western and Southern Advisory
College Board Regional Meetings (6)
Southern Association of Student Financial Aid Administrators
Graduate and Professional Financial Aid Council

March — Task Force Meeting

Meetings

United States Student Association- Leadership Session
American College Testing Program- National Advisory Council

April — Meetings

American Association of Community and Junior Colleges
Western Association of Student Financial Aid Administrators
National Association of Student Financial Aid Administrators
National Council

May — Task Force Meeting- Research overview; Outline of preliminary report

Meetings

Eastern Association of Student Financial Aid Administrators

June — Meetings

National Association of State Scholarship and Grant Programs
National Council of Higher Education Loan Programs

July — Task Force Meeting - Draft of final report

Meetings

National Association of Student Financial Aid Administrators

September — Task Force Meeting - Draft Final Report to CONAD

October — Final Report to CONAD

Appendix A

NATIONAL STUDENT AID COALITION

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CONAD TASK FORCE ON STUDENT EARNINGS

In order to gain more information and to assist in arriving at its decisions for the 1986-87 academic year, the Committee on Needs Assessment and Delivery (CONAD) of the National Student Aid Coalition establishes a Task Force on Student Earnings. The goal of the Task Force will be to compile, examine, and evaluate relevant data and other information on the treatment of student earnings in the uniform methodology, and develop options on this subject for CONAD's consideration.

The scope of the Task Force's inquiries shall include, but not be limited to, the earnings of dependent students during the academic year and during periods of nonenrollment and the total sources of income for self-supporting students. In conducting its work, the Task Force will examine relevant sources of data on the earnings actually reported by student aid applicants, information on youth employment and average wage rates. In addition, the Task Force should review present practices, as well as the historical background of current policies.

As part of its review of the dependent student methodology, the Task Force shall consider the development of a construct for determining levels of contribution from expected student earnings.

The Task Force's evaluation of the independent student methodology should include an exposition of the strengths and weaknesses of the current methodology and a careful review of the first year's experience with the revised methodology. Specifically, the Task Force will report on the effects of self-supporting student earnings on students and institutions. While the Task Force should concentrate on the student earnings components of the independent student methodology, it should conduct its analyses in the context of the total methodology and relate its findings to the methodology as a whole.

The final product of the Task Force shall be a report setting forth options for the treatment of dependent and self-supporting student earnings. The report of the Task Force shall include a discussion of the merits of each option and a discussion of the effect of each option on:

1) the feasibility of administration and implementation at the campus level;

2) the development of the common application form;

3) various groups of students, eg. undergraduate vs. graduate, women vs. men, married vs. unmarried;

4) aggregate levels of family contribution and institutional need.

The Task Force shall deliver a preliminary report to CONAD on or before October 1, 1984 and a final report on or before November 1, 1984.

Appendix B

# NATIONAL STUDENT AID COALITION

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Appendix C

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Appendix D

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National Student Aid Coalition
September 1984

Appendix E

## Development of Uniform Methodology Recommendations for 1986-87

| | June 1984 | July | August | September | October | November |
|---|---|---|---|---|---|---|
| CONAD | Appoint. of task forces or study groups | | Identification of issues to be studied and addressed in UM for 1986-87 | Issue assignments/ general meeting | | General meeting/ task force reports |
| NASFAA | | National Conference and National Council Meeting | | | Midwest Association and Need Analysis Standards Comm. (NAS) Meeting<br>---<br>Rocky Mountain Association | National Council Meeting |
| CSS | | | Committee on Standards of Ability to Pay (CSAP)<br><br>"Blue Sky" meeting | | | CSAP meeting on specific proposals |
| ACT | | | | | Midwest Advisory Council<br><br>Rocky Mntn. Advisory<br><br>Western Advisory | |
| NSAC | | | | | | |

| | December | January 1985 | February | March | April | May |
|---|---|---|---|---|---|---|
| CONAD | | General meeting | General meeting/ preliminary report to NSAC Exec. Committee | General meeting | Final UM recommendations to Exec Comm. and Coalition | |
| NASFAA | Southwest Association | | Southern Association<br><br>Needs Analysis Standards Comm. (Feb. or March) | | National Council<br><br>Western Association | Eastern Association |
| CSS | | Distribution of CSAP position | College Board Regional Meetings (6) | CSAP meeting to finalize recommendations<br><br>CSS Council (formal recommendations)<br><br>ACT/CSS Technical Meeting | | |
| ACT | Southwest Advisory | | Southern Advisory<br><br>Eastern Advisory | National Advisory Council (formal recommendations)<br><br>ACT/CSS technical meeting | | |
| NSAC | | | Coalition Exec. Comm. reviews preliminary CONAD proposals | | Coalition approves final U.M. recommendations (before May 1) | |